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STANDING COMMITTEE ON PUBLIC ACCOUNTS

**ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87:
ESTIMATES PROCESS**

THURSDAY, APRIL 14, 1988



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Ballinger, William G. (Durham-York L)

Carrothers, Douglas A. (Oakville South L)

Dietsch, Michael M. (St. Catharines-Brock L)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Offer, Steven (Mississauga North L)

Pope, Alan W. (Cochrane South PC)

Runciman, Robert W. (Leeds-Grenville PC)

Smith, David W. (Lambton L)

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

Witnesses:

From the Office of the Provincial Auditor:

Leishman, Ken W., Executive Director, Reporting and Special Audits

Calderwood, Gordon A., Director, Reporting and Standards Branch

Sciarra, John, Administrative Assistant

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, April 14, 1988

The committee met at 10:09 a.m. in room 151.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87
ESTIMATES PROCESS

Mr. Chairman: I am going to recognize a quorum. A couple of our members are tied up in the House. Shelley Martel has her private member's bill on, but I think that we do have representation from all the parties.

I am going to ask our clerk to hand out the proposed schedule of hearings. There will possibly be some changes in that, which I will explain in a minute, but at least it gives you an idea of what we are attempting. This was pretty well the schedule that we agreed on before the recess.

As you know, we have scheduled section 2.2, which is the estimates process and I think is one of the more interesting sections in the auditor's latest report. What I am proposing is that we have our researcher, Wendy MacDonald, go through some of the very interesting background material that she has prepared on this. Then I suggest you might ask questions of Ken Leishman, John Sciarra and Gordon Calderwood from the Office of the Provincial Auditor.

During this time our researcher, Wendy MacDonald, will be taking notes on some of the ideas and themes that are coming out and then she can prepare some of the possible recommendations stemming from the trends of some of your questions. At some point later we can meet in camera, in a few weeks or whenever that is prepared, and come to some conclusions as to what we want to say about this section in the report.

It is a very theoretical section, but I think it is interesting because it comes at a time when there are a number of parliamentary reforms going on. The legislative committee may well have its report down in a few weeks. I think you will find that this section of the auditor's report is very complementary to the kind of thrust that they are looking at.

Furthermore, the regulations committee is also looking at various types of reforms. I think that the content of the auditor's remarks also lends very nicely to some of the things I know they are about and they are likely to be recommending.

These are exciting times in terms of some of the kinds of procedural reforms that we are looking at and this works out nicely that everything is happening around the same time in different committees.

Unless I have any questions on the proposed agenda, I am going to move on then, and ask Wendy to address the committee.

Mr. Ballinger: It is nice to see that we are all back together again.

Mr. Chairman: It is nice to see all of you back together again and I have already thanked you for my birthday gifts.

Mr. Smith: You are quite welcome.

Mr. Chairman: I know that all of you are very anxious to have me lend you the book you gave me, but I have not finished reading it because I have been so busy with parliamentary work. But the moment I get it finished, Mr. Ballinger is the first on my list.

Mr. Ballinger: I was thinking Mr. Runciman would really enjoy reading that book. He probably would be the first one, and he could do an executive summary for us.

Mr. Chairman: OK. I am going to ask--

Mr. Runciman: Better tell me what you are talking about.

Mr. Ballinger: I will write you the title of the book.

Mr. Chairman: I am going to ask Wendy MacDonald to start her briefing.

Ms. MacDonald: As Mr. Philip says, this is an issue that has had a lot of attention from different committees in the past and it is a fairly complex issue. The approach that I have taken to it is to pull together some background information which summarizes the auditor's concerns, sets out the past history within the Ontario Legislature, pulls in some examples of what has been done in other jurisdictions to similar kinds of problems and then sets out some possible avenues of performance and alternatives that could be looked at, all set out in very general ways. I think that, if the meeting today leads to some agreement on principles, then it would be possible to pull together some more detailed implementation options if the committee thinks that is useful.

The auditor's report first looks at the accountability cycle in Ontario and identifies that the estimates process is a key part of it, that it is a starting point and that in order for the whole process to be effective, it has to be effective. Yet it is found that it is not, at this point in time, effective and that there is a lot of concern in the Legislature about that.

There were a number of problems noted with the estimates process. I have set them out here on pages 1 and 2 of my paper. They are organized in a slightly different way than they are set out in the auditor's report but they are a useful grouping.

In terms of procedures, there is a problem with the timeliness of them. There is the fact that estimates are often considered practically at the end of the fiscal year to which they apply. There are inconsistencies in the planned review in that there is not always a proportionality between the amount of time given to a ministry and the amount of money.

Then, setting aside the issue of the plan itself, the plan is not always followed because the pressure of other work leads to deviations and creates backlogging. In consequence, some ministries fall off the end of the table completely. There is also a problem noted of the inability to change individual items in the estimates and of the fact that that is perceived as a nonconfidence vote. The yearly report states that this "weakens the Legislature's control of expenditures and detracts from a back-bencher's feeling that he or she has input in the workings of government."

Moving on from procedures, a second category of problems has to do with

the kind of information input that is provided to the committee. This is something that the federal government has given a lot of attention to. The argument made there is that, in order to function properly, members have to have access to all the information that they need, presented in the right way. It appears that there is room for improvement in that area also. There were concerns about the quality of some of the ministry briefing books and about the usefulness of the estimates book as compared to a phone book.

The final problem is the issue I am sure you are all pretty familiar with, which is the pressures on your time and your resources. I think the basic problem that Ontario is facing now, and that the federal government and the United States government which we recently visited have tried to cope with in the past, is how to allocate a certain number of functions among standing committees. There are essentially three functions: scrutiny of departmental activities, or oversight as it is called in the US; review of the proposed expenditures of the estimates process; and review of new legislation.

What happens in Ontario is that you have a fairly small number of standing committees carrying out all three of those functions, and that creates a tremendous overload on those committees. The federal government had the same problem and it took several different avenues over time. In 1982 and 1983, the special committee on standing orders and procedure recommended that the estimates process be lifted from those committees and that they be left free to concentrate on legislation. In 1985, the McGrath committee took a different tack and lifted the legislative function from the committees, leaving them free to concentrate on departmental scrutiny and on estimates.

The fact remains that whatever they thought appropriate for their system at the time, the finding was that all three functions were too much for the standing committees to carry. The other thing is that, even though there is a great deal of time allocated to estimates, 420 hours, as the auditor knows, that is still not enough to give them the in-depth scrutiny that they deserve. It is not possible to look at everything the government is doing each year.

So the suggestion there is that there be a focus on just a few ministries each year and that, over time, all of them be covered. I think the implication is that, if they were to be left with the standing committees, there would be sort of a patchwork. There is the question of which committees would do what, who would choose them and so on.

All in all, the first priority that was identified in the auditor's report, as it has been in past reports of committees of the Legislature, was a structural solution to set up a specialized estimates committee. That would address a lot of these problems. Then there are further measures that could be taken in the areas of procedures, information input and committee resources that would also alleviate the other problems that have been identified.

It does appear that the first priority to solving these problems is a committee solution, to set up a specialized committee. The research paper goes through what has been suggested in the past. That has been the suggestion. There is a bit more detail to it. It was initially suggested in 1980 by the standing committee on procedural affairs. That was endorsed in 1983 by the standing committee on public accounts when they issued the 1982 report.

It was looked at again in 1983 and 1984 by the public accounts committee and the Provincial Auditor. Then in the fall of 1985, the standing committee on the Legislative Assembly repeated its recommendations and recommended the establishment of a standing committee on finance and economic affairs to which

the estimates would be referred and recommended that that committee look at six sets of estimates a year, two to be chosen by each party.

As we know, subsequently a standing committee on finance and economic affairs was established but its mandate and its work has been more on a macrolevel of overall expenditures, taxation and some financial and economic issues in the free trade area. It has not really looked at estimates, so the problem still remains.

It appears, as the chairman has noted, that there is a lot of interest in other committees as well in the area of reform. Some comments made by the Treasurer (Mr. R. F. Nixon) in the discussion of his estimates suggested he is open to alternatives. It seems that it is a good time for the public accounts committee, as well, to consider this because, as the auditor has pointed out, it is critically important to the work that we do to have the front end of the process functioning.

The auditor has made some additional recommendations which link the proposed new estimates committee to the work of the public accounts committee. He suggested that the estimates which are chosen by the new estimates committee for scrutiny be then subsequently audited by the Provincial Auditor and that after that the public accounts committee, as part of its work, consider how those expenditures have actually been made and how the implementation has gone. That would close the loop, in effect. It would provide a co-ordinated scrutiny by the Legislature of proposed current and past expenditures.

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Mr. Chairman: In terms of the American experience, for some of you who were interested in oversight procedures, which seem to occupy a very large portion of congressional committees' time now, that would make us the oversight committee in a sense for those matters of the estimates that had been dealt with by the other committee, the specialized committee dealing in estimates. In other words, we would do the follow-up kind of oversight work. It is an interesting concept for those of you who are interested in what was going on in the US.

Mr. Runciman: Perhaps you could explain that a little bit. I am not sure I am clear on it. We are talking about the finance committee reviewing a set number of estimates and we are subsequently going to review to see how they comply with those estimates?

Mr. Chairman: Yes. We would be, in a sense, the equivalent of an oversight committee. In the estimates committee, they would deal with how much is being spent, whether it is a wise proposal and that kind of debate which always goes on in estimates. Our committee would be there to see whether the bureaucrats, the public servants, are in fact implementing them, whether they have done them efficiently, following the audit of the Provincial Auditor, whether they are fulfilling the objectives set out by the government.

Mr. Runciman: There is another aspect of that. I am not sure where it would fall but I think it should be of concern to all members. Last year there was something like \$1.6 billion in supplementaries. That is government spending out of whack, in my view, which has had no overview and no input whatsoever.

I would like to see at some point in the process, whether it is the

standing committee on finance and economic affairs or this committee--and we have set precedents in the past with the dome and so on--when supplementary allocations go to Management Board and receive Management Board approval, at some point--I suggest within 15 days perhaps--those supplementary allocations should come to a committee of the Legislature, not for approval, obviously, but for consideration and input from the members of the assembly. There is a real void there, and we are talking about a significant number of dollars here.

Mr. Chairman: As you know, a number of members have pointed out that very problem in the last couple of days in the House. I think it is a point that Ms. MacDonald has noted. Perhaps we can discuss it in greater detail with the Provincial Auditor's staff and keep it in mind as one of the possible recommendations in our report. I am not sure it should be this committee, but it is worth at least discussing that.

Mr. Runciman: Yes. We have set the precedent in the past two years with the dome, rent review, etc.

Ms. MacDonald: As the chairman has mentioned the US analogy, I should just touch briefly on that. One of the other papers that has been provided to you consists of notes on our meetings on the US budget process. It just draws together from five different meetings an overview of the system and assessments of how the process has functioned and notes some recent issues arising and challenges the system has had to cope with.

I think we all got a sense when we were in the US that the system there is pretty complex. I only figured it out after it was all said and done and I waded through my notes.

Going back to the three functions of legislative assessment, oversight and expenditure review, they have it set up in a somewhat different way there. They have what they call authorization committees. Those are like the standing committees we have here. Their job is to do oversight or scrutiny of the departments within their jurisdiction and also to look at legislation.

All the expenditures, the actual voting of money for those activities, go through a separate committee, the appropriations committee. You will probably recall that we met with Mr. Obey in the last meeting we had that week. That was the committee on which he sat.

There was a useful analogy given at one of the briefings we were at to clarify the system. It is as if, in order for a program to happen, the authorizations committee has to authorize it; in effect, they open a bank account for the program. Then the appropriations committee has to vote the money for it. In effect, they put money into the bank account. Once those two functions have been done, then the executive can go and deliver the program. In effect, they can write cheques on the bank account.

Those are the two key committees that correspond to ours. There is also a third level that was put on in the 1970s and that is the budget committee. It corresponds to our standing committee on finance and economic affairs and it basically has the big-picture job. It looks at the overall impact of the budget, the spending and taxing totals and fiscal issues to some extent, and draws and sets parameters for the other committees to work with. It is a very complex system, but I think it shows their response to a really complex system and the same sort of challenges we have here.

I think there was a perception when we were there that the process was experiencing difficulties, but we also got a sense that the people we spoke to did not see that as being the fault of the process so much as just the sort of situation at that particular time.

There are some interesting examples from the other jurisdictions in terms of how they would address specific problems that the auditor has identified. In terms of procedural reforms, the federal government in the last couple of years has brought in essentially a timetable for completion of the estimates. As probably all of you know, the federal government now has a fairly fixed timetable for the presentation of the budget. The estimates are then tabled after that.

Apparently, prior to that, the estimates could be tabled before the budget came down since their spending and taxing are a bit more separated than ours. But now it happens there is a budget in February, then the estimates in March and by June 10 the committees of Parliament have to finish their estimates scrutiny. They essentially wrap it up in the first quarter of the fiscal year in question.

Another procedural reform that has taken place at the federal level is that the McGrath committee in its report called for attitudinal change on the part of the government, such that reducing or eliminating an item in the estimates would not be perceived as a vote of nonconfidence in the government. The government has accepted that recommendation in principle. I do not think it has been put to the test yet, but in principle they have endorsed it.

In the area of information inputs, the federal government has undertaken a fairly major effort to improve the type of information and the quality in the estimates. When we were in Ottawa you got copies of the Auditor General's so-called "part III estimates," and that is the nature of the change. The part I estimates set out the major fiscal plan, part II is a sort of a blue book that puts out the money going to each department, and then the part III estimates describe the funding. They establish a linkage between the funding going in and the results coming out at the other end of the pipe.

Those part IIIs have just basically been put in place. The last department now is producing them. The consensus so far is that they are an improvement on what existed before, but there are still some problems associated with it. There is an awful lot of information for MPs to sift through. The information is in a lot of cases very positive about the department's results and efforts. That basically just sets up additional information that has to be assessed in terms of its validity. None the less, it is thought to have a lot of advantages over what existed before, where it was really difficult to establish any linkages between inputs and outputs.

There is also a continuing effort to upgrade that information through a central point, the Office of the Comptroller General, whom we met. It is possible that there may be scope for improvement to the Ontario estimates briefing books as well.

Another area is resources. I think we all saw in the United States that the US legislative process has extensive staff resources, both to the committees and also nonpartisan resources in the form of the General Accounting Office and the Congressional Budget Office. At the federal level also, recent reforms have increased committee staff and budgets.

Finally, I have noted the structural reforms in the US, the establishment of the appropriations committee and the budget committee.

The final part of my paper sets out some possible alternatives that exist for Ontario, drawing on those reforms elsewhere--possibly a timetable, possibilities for a co-ordination and upgrading of the estimates briefing material, additional staff resources for the process and the key recommendation, the establishment of a specialized committee as suggested by the Provincial Auditor.

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There is additional detail in the two papers that have been supplied with that. There is an overview of the federal reforms and also the notes on the US budget process. I think with that I will throw it open to questions. I am sure the Provincial Auditor's staff would--

Mr. Chairman: Before we move to the Provincial Auditor's staff, I am going to suggest that, if there are any questions that you would like to address to Wendy MacDonald, we might take those questions now. We have covered an awful lot in a very short time, but you do have the materials and most of the members of the committee are familiar with the material because of briefings we have done in other ways and because of some of the work we have done as a result of our meetings in Ottawa and Washington.

Mr. Pouliot: Whatever happened to the 1985 recommendation regarding the almost useless exercise that estimates are? I even heard at one time, as an example, the member for Cochrane South (Mr. Pope) make a political statement under the auspices of estimates. Whatever happened to those recommendations?

Mr. Chairman: Those recommendations are being studied by the standing committee on the Legislative Assembly at the moment. That committee is about ready to present a paper, I think, and the paper is, from what I understand from members of the committee, fairly reflective of some of the concerns of the Provincial Auditor and of the recommendations of the standing committee on public accounts.

Mr. Offer: It is nice to be back to the committee after--

Mr. Ballinger: Yes. Where have you been?

Mr. Offer: I have been in the Meech Lake bog.

Mr. Chairman: Welcome back, Mr. Offer. Do you have a question?

Mr. Offer: Mr. Pope made me forget it. I know I am not supposed to mention names, but I forgot his riding.

I think it is important that we do take a really hard look with respect to the whole question of estimates. I have been here only since 1985, but my experience in the past parliament is that, geez, they are difficult, and I do not know if proper attention is really placed on estimates by many persons.

What I am trying to get a clearer understanding of is the structure that is proposed. It seems--and correct me if I am mistaken--what you are proposing is that there be a new committee formed, which I imagine would be a standing

committee on estimates, that committee would sit--I am not certain for how long; it is a question--and then it seems it would select only certain ministries to conduct estimates, which would be limited to six or so that would be chosen by all the members.

Then I guess the question is, is there not a potential problem in that other ministries might never, ever find their ways into the estimates committee? You would probably always have the Ministry of Health, you would always have the Ministry of Education and you would always have the Ministry of the Environment. If you are always going to have certain ministries being estimated and you have only a certain number, there is a real potential that certain ministries might never find their way within the estimates process. I wonder whether that has been thought of and I wonder if you can shed some light on that?

Mr. Chairman: Who are you directing that question to, Mr. Offer, to Wendy, to the Provincial Auditor's staff, to myself or to the committee?

Mr. Offer: Wendy. To whomever. I just want to get more of a handle on the structure.

Mr. Chairman: Wendy, do you want to comment? Then maybe Mr. Leishman might have some comments.

Ms. MacDonald: The auditor's report, as I saw it, did not make any explicit recommendations on the structure of it. I think the issue you have addressed is a key one in that it is possible that some small or noncontroversial departments or very steady-state departments might not get called as frequently. I think there would be a hope that over a five-year term all of them would get looked at. I am not sure if that would actually happen.

I think the key thing to remember is that there still is an avenue for scrutiny through the standing committees. They would still have all these ministries within their jurisdiction. The annual reports would continue to be referred and there would be an avenue for those departments to be scrutinized in terms of their activities and their operations. So there are two ways to come at it. I think what it would provide is more in-depth coverage of the ministries, one from one angle and one from another.

As I say, I have not really sketched out any detailed implementation options for the committee, but I am sure there are measures that could be taken to ensure that there is a timetable or that those sorts of concerns are addressed.

I think what had been envisaged in the past reports of the standing committee on the Legislative Assembly is that each party in the Legislature select two ministries for estimates review. I think through that mechanism it should be possible to ensure that if there is a concern about a ministry not having been looked at in a long time, that it would get on to the agenda.

Mr. Offer: I would like to ask one further question. When the estimate is completed, would it just be passed or would a report be made to the Legislature? There is a whole new type of analysis which might result from this, where it is not just a quick passage and maybe not a major report, but--

Mr. Chairman: Theoretically, the budget could be cut on any one item. That is not likely to be done without a nonconfidence motion resulting.

Mr. Offer: Well, those were just some thoughts.

Mr. Leishman: Just perhaps to expand on what Wendy was saying, we are merely stating agreement with the recommendation that had been made by the procedural affairs committee. Perhaps one solution to the problem you brought up would be, and it would have to be decided by the politicians, is that they could decide to take two large, two medium, and two small-sized ministries every year. Therefore, over a period of four to five years, the entire government would be covered. We would not have any ministries being slipped or left out of the process.

Mr. Offer: What is this overview type of situation which this committee would have charge of?

Mr. Chairman: To ensure that when the legislators pass certain moneys, and that would be dealt with in the estimates, the moneys are in fact being spent for the purposes for which they are allocated and that they are done efficiently and that the administration, which in this case would be the government, but more particularly the public service, is following through in the way in which the money has been allocated.

Mr. Offer: Not to take issue but as a matter of clarification, is that not the role of the auditor?

Mr. Chairman: That is where the auditor comes in. Of course, the auditor would do his audit of certain ministries and report back to the committee. Then public servants would be called to be accountable to the committee for questioning when there were instances of oversight.

Mr. Runciman: I was speaking specifically of supplementary allocations and there is no involvement now at all.

Mr. Chairman: We should not lose sight of Mr. Offer's concern. We have noted it, and when we come to our report, we may want to address that. Perhaps when we sit down to write the report we have noted that, so it is not just floating out there. We have it.

Ms. MacDonald: Mr. Offer, you had earlier asked a question about the process that would be used by the committee. If I could just go back to the 1985 report to which Mr. Leishman referred, what they proposed there is that after the estimates committee has scrutinized the estimates they would then report the estimates to the House at a certain. They suggest the third Thursday in December--but essentially, within the first three quarters of the year--and if they do not report the estimates by that specified time, they will be deemed to be reported to the House. Then there are measures that could be taken for concurrence, and subsequent debate in the House could be limited to a certain time. Once that is completed, then the process will be through. That is what was envisaged in 1985.

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Mr. Smith: The problem is to clear this up. Hopefully, it will help us all try to understand estimates. Because of the evolution of time, I suppose, estimates are something like preparing a budget, only now we are so far away from when the budget is actually prepared that they call it estimates and all we do is more or less scrutinize what somebody else has drafted up. As one of the kids of 1985, you have to learn so much when you come in here to get the background of this government, which spends about \$32 billion or \$35 billion a year, that it almost overwhelms one.

I think estimates is really a place where members could cut out some of those budgetary items and they would have every right to do it. Is this an understanding? Am I right on this? Is this how it is processed?

Mr. Chairman: I think Patrick Reid, who was the committee chairman for many years on this committee, used to say that they did not even go that far, that the question that was rarely asked in an estimates committee was, "How much is it really going to cost?" and that there were very few financial questions asked. I think that has been our experience.

Mr. Smith: The committee that is doing the estimates, though, could cut some item out of the budget and it would have to go to the House, but they could cut something out, could they not?

Mr. Chairman: Technically, yes.

Ms. MacDonald: Technically, yes.

Mr. Smith: So it is something like creating a budget? I am just trying to get it clear in my mind.

Mr. Carrothers: I just wanted to make an observation. We were talking about the oversight process in the United States. I think we should not forget the fact that in no way in that system does the government of the day come before the Legislature for scrutiny the way it happens in question period here. One of the reasons they have that oversight process is to put into the system some method for the Congress to question cabinet. We have to bear in mind a fundamental difference. Every day, when the House is in session at least, the cabinet and the ministers responsible for the spending are brought to scrutiny and can be scrutinized in that public forum, which is something lacking completely there. Before we follow their pattern too much, we should remember it.

We may also want to bear in mind who is responsible for the budget there and who is responsible for a budget here. The budget here is the fundamental confidence matter. In that system, the budget is in no way a confidence matter and responsibility and changes to that budget have a very different impact in that system than they have in this. I think we should bear that in mind as we discuss it.

Mr. Chairman: I do not want to get into a debate on it, but I suspect that as society becomes more and more complex, we are going to have to devise ways in which certain types of voting against spending certain moneys are not considered confidence.

Mr. Carrothers: It would be a pretty fundamental change, I think, to the way we have structured our government, though.

Mr. Chairman: Yes. I think you will find it is going to have to come with the complexities of society.

Ms. MacDonald: That is something that has been repeatedly considered at the federal level. The structure the special committee recommended in 1982 was quite a sophisticated structure of specialized finance committees, but one component was a committee on expenditure proposals. The purpose of that committee was to work with the standing committees to act as a focus for expenditure review.

It was also recommended that that committee have the power to change individual items so long as the total remained unchanged. I think that is one avenue that could be taken. If you look at a budget segment, let us say, as being an envelope--and it could be at the minister level or it could be at the policy field level--you can say you can change it as long as the total does not change; or you could put in a guideline that you could even cap the amount of changes. You could say that adjustments of, say, five per cent are allowed so long as the total remained unchanged. Actually, five per cent allows a fair bit of discretion to an activity. I think there are guidelines that could be put on it.

Also, the McGrath committee in 1985 did recommend that changing an individual line item not be considered as nonconfidence and the government has accepted that recommendation in principle although it has not yet, as I mentioned, been put to the test.

Mr. Chairman: Anything further on that?

Mr. Dietsch: I was curious, is the auditor's staff going to present its presentation based on the same thing, because perhaps the line of questioning is really moving into that category? I know my questions are similar to those that have already been raised, but I guess I would like to hear the auditor's--

Mr. Chairman: I think Wendy, in part, summarized some of the auditor's recommendations but we are going to hear from him. You are the last person on my list so if I do not have--Mr. Pope, on Wendy's presentation?

Mr. Pope: One of the inadequacies I have always felt in this process is access to documents as opposed to verbal exchange of ideas or information.

Mr. Pouliot: It is harder now.

Mr. Dietsch: Did you just get that feeling?

Mr. Pope: Actually, it started back in 1985 with the Caplan inquiry in which the government of the day chose to not reveal any financial information, in spite of the fact that had that information been made available in 1985, the Ontario Provincial Police investigation of Mr. Caplan would have started a year earlier.

I am wondering if you have, therefore, any recommendations with respect to the types of documentation and the estimates process that members, including the oversight committee, should have access to, because bald numbers on a sheet of paper do not always indicate what is really happening. I understand the need for some ministerial discretion in juggling the figures, but I think it is also fair that you should know how the figures are being juggled.

The fact of the matter is when I was Minister of Natural Resources, in estimates committee everyone knew that the forest firefighting budget was an open-ended budget and, therefore, all sorts of selected things that different members from different parties requested during the year sometimes found their way into that.

Mr. Dietsch: Did you juggle the figures when you were minister?

Mr. Pope: Of course, and so do your ministers.

There are allocations from program to program. It is no secret for instance that when I was again in the Ministry of Natural Resources in 1982 when there was an economic downturn in the resource sector of the province that we scooped most of the section 38 federal-provincial funding for job creation programs and used it--

Mr. Smith: I like your choice of words, "scoop."

Mr. Pope: That is what it was. And used it to employ over 7,000 laid-off resource workers. We ran the program under the Ministry of Natural Resources but we used the Ministry of Labour and the Ontario Manpower Commission and federal government money to do it. There is nothing wrong with any of these things but I think committees have the right to see the paperwork behind it and to know what allocations have been made from other committees, and how other budgets from other ministries are being controlled by ministries that do not have those funds allocated to them, for instance.

Mr. Chairman: Mr. Pope, are you asking that as a question or are you leading into certain proposals as to what you think should be done about the problem?

Mr. Pope: No, I am just asking if Wendy has considered the access to documentation and some limits or some expansion of the rights of members to get access to documents?

Ms. MacDonald: Not in detail. I know that the Lambert commission, for example, agreed that it is absolutely critical in order for members to conduct a detailed scrutiny of expenditure that they have access to information. In fact, they saw it as being so key that they recommended the changes to the federal estimates, materials which I have described now. Whether those changes address the concerns of the Lambert commission about MPPs getting the right information presented in the right way is not all that clear yet. I think the critical question is what kind of information, how much of it and in what format MPPs need it in order to conduct their work.

Mr. Chairman: I think Mr. Pouliot had a supplementary.

1050

Mr. Pouliot: I find myself in the ironic position that if I choose at this time to forget about past performances, and this morning I choose to do so, I will also be in agreement with the member for Cochrane South (Mr. Pope). More importantly, I draw your attention to page 2 where it mentions, indeed, "The total number of hours assigned to estimates is not sufficient to allow...." Then it goes on in the same paragraph, "Elected members have neither the knowledge, the time, nor the resources to seriously examine government expenditures." Not only are we dealing after the fact, because if you are called at all as a critic, if the ministry is called at all, the money is already spent. So it is a forum for a political statement.

The process of estimates, to all intents and purposes, 90 per cent of it, is a political exercise. It is not a scrutiny exercise. It is not a financial exercise, which is the mandate. Those are the terms of reference which it is mainly designed to be. It is a field-day for the critics and has nothing to do with the terms of reference, really. What scares me and you have mentioned that, sir, with respect, is five years where everyone would be coming under scrutiny. For instance, I am the critic for native affairs, among other things, as there are only a few of us in opposition.

Mr. Dietsch: I understand that.

Mr. Pouliot: The potential looks good but at the time being there are only a few of us. More seriously, we have spent two and a half hours, since I have been here in 1985, on native affairs. The second, third years there has not been anything called. You have an expenditure exceeding \$30 billion. More than half of that will never reach estimates. It is really an amazing process. The standing committee--and I am not quite clear because we do not have the recommendations yet--would have to condense a timetable that is consistent, that is just or as close as possible to it, and that addresses each and every ministry much more expeditiously than has been the case up to now.

There has to be a mechanism whereby we can restore the confidence of members in the estimates process because then you have a guarantee that you do not have to beg your House leader, because that is the real world of politics, to see who is going to go first, who is going to go last, what are we going to do with these hours, and so forth.

Right now it is a system that few people take seriously. For members, for many of my colleagues, it is viewed as a burden, but nevertheless a good place to make political statements to get things for your riding if you cannot rise in the House and speak under supply.

It is that kind of travesty. It has to be done because you will lose almost complete interest in it. People are serving on estimates with a great deal of reluctance. They get their pound of flesh, they make their political statement and they cannot wait to get out of there. This is serious.

Mr. Chairman: Mr. Dietsch wants to comment. There is a system now that is in place whereby the annual report of the ministry is automatically referred to committee. One of the problems that results from that is that in a majority government, if the majority on the committee does not want to deal with that report, they do not have to schedule it.

If I am not mistaken, one of the proposals which the legislative committee may be looking at--but it is certainly a proposal that has been made in various reports and has certainly been looked at in Ottawa--is that the minority, which in this case would be the two opposition parties, would have the right to schedule certain items in every committee. So that while the majority would say yes, this is our major focus for the committee, the minority would also have certain items. And one of the items they could refer in that case would be the annual report of the ministry that you are saying only got two and one half hours. You could do the same thing with an agency if it was not properly scrutinized, or a part of a ministry.

Mr. Dietsch: One of the things that bothers me in some respect is that by establishing another committee, you are creating another area of investigation, if you will. There is no follow-up. That is what really bothers me about the process as we have it today.

I guess I am sort of leaning in my reasoning towards broadening the aspects of the public accounts committee in terms of, if the public accounts committee, for example was dealing with estimates with regard to the Ministry of Natural Resources, then it would seem logical to me that after one of the estimates when we had done this--that we should audit those particular estimates at that following next session so that you had some continuity and some follow-up in what you are doing.

The difficulty, the way it is now, is you review estimates and you review them all in somewhat of a blanket form. I guess I am somewhat concerned about the approach that takes because I do not feel that it really goes into an in-depth type of approach where you do not particularly do a line by line, but get into something more in-depth, so you have a clearer understanding of where these expenses are being lined--and then, as well, to follow up with the audit in that area where you have gone in the estimates so that you have some continuity. Then move on to another ministry.

The way I see it now, we do the audit in particular areas as we have done over this past while. The auditor has branched out in a value-for-money audit. That to me seems to serve the same value as an assessment through a standing committee on finance and economic affairs that would follow. But what would happen after they review those estimates? They would be so locked up with reviewing estimates. It is all well and good to review them all but then what happens? That is where either I have some difficulty at understanding the way we are presenting it, or some difficulty in understanding how we do no follow-up with the initial groundwork that we lay. I think we spin our wheels and we effectively do nothing.

Mr. Chairman: I guess my concern, Mr. Dietsch, is that if we were to move in the direction that I think you may be suggesting--and I know that the chairman of the standing committee on regulations and private bills shares my view regarding that committee as well--there is a need for certain committees to be completely nonpartisan. I think that if we start getting into an estimates sort of process, we would start getting into the policy area and that would just tear the committee apart from the point of view of being nonpartisan.

I think there is a real need for certain committees, such as the regulations and private bills committee, the standing committee on the Ombudsman and this committee, to look at the figures and not deal with whether a policy is right or wrong or whether it is a good policy or a bad policy, but merely whether or not the policy is being implemented in the most efficient way possible and so forth.

Mr. Dietsch: I understand what you are saying, Mr. Chairman. Perhaps the two could be worked in. Perhaps if estimates is going to review or if there is such a committee constructed after all of this, perhaps that is a follow-up that we can do in an intricate work of co-operation, if you will--that there is a standing order or a standing rule of procedure that we audit those areas that they have estimated. We just lose something there, is what I am afraid of.

Mr. Chairman: I suspect that may be the direction that we might be headed in. The auditor might well want to go in the year after the estimates committee had dealt with a series of estimates and pay particular attention to those ministries and then report back to this committee and then we do the follow-up.

Mr. Leishman: That is essentially what we are recommending--

Mr. Chairman: That is basically what they are recommending--

Mr. Dietsch: That is why I wanted to get onto their presentation before I got into some comments, but I hear comments in respect of making political hay as it were. I am more interested in settling up some of these issues as opposed to--and then I will rise and fall on my work record. I think

that is what the members in this government should be looking at. I know they are on our side but I do not know about the other guys.

Mr. Chairman: I think Wendy had an interesting breakdown. She talked about the work of the Legislature in three kinds of components--the legislative, the making of the rules, if you want, and certain committees have to deal with that; the economics, if you want, or the estimates side of it and then the follow-up, which would be the public accounts committee and the regulations and private bills committee. And I suppose the other nonpartisan committee would be the Ombudsman committee.

Maybe we can hear now from Mr. Leishman, Mr. Sciarra or Mr. Calderwood on the specific sections in the report, now that we have had the overview from Wendy.

1100

Mr. Leishman: We have no formal presentation to make, but I can make a few comments. All we are doing in this section is bringing together long-standing comments, long-standing recommendations that have been made related to the estimates process. In 1979, the Lambert report made recommendations. In 1980, the Ontario standing committee on procedural affairs made recommendations. In 1982 and 1984, the standing committee on public accounts dealt with the estimates process. In 1985, the standing committee on the Legislative Assembly made recommendations, and in October 1985, the Treasurer (Mr. R. F. Nixon) issued a discussion paper on the budget process.

As part of our review, we chose to interview a number of MPPs to get their perceptions. Did their perceptions jibe with what has been said by the various committees? We found unanimously that the perception was that the estimates process is in need of drastic change.

Those are about the only comments I could make. We would be happy to answer any questions that we can as to the specifics of what we are saying in here.

Mr. Smith: Could you take hours away from the estimates and give them to the public accounts committee or a committee such as that? Is that what you may be planning to do?

Mr. Leishman: No. The estimates should be reviewed by a committee independent of the public accounts committee. Then when the estimates reviews are over, be it five or six ministries a year, to close the loop, the public accounts committee, after the end of the year, would review the spending of those specific ministries that were covered in the estimates. In that way, you would have a real, detailed review of a series of ministries from their estimates to their actuals every year.

Mr. Smith: But I thought I heard some of the members say that they felt the time in estimates was not as fruitful as it should be and people were just making public statements. They were not really getting to the root of the process, or the budget anyway. That is why I am asking whether you would be better off to take a little time away from estimates and give more time to a public accounts committee or a committee such as that, which can get right into the nuts and bolts of a certain ministry or department.

Mr. Leishman: I think that is one of the problems right now with the estimates. They are not as fruitful as they could be, but part of the reason

could be because the committees that deal with estimates are trying to deal with 28 or 30 ministries--however many there are right now--a year. So it is more of a shotgun approach. If a committee could be formed to deal with just six ministries per year, then it could devote all its time to doing a comprehensive job of six ministries rather than scattering its time across 28 or 30 ministries. I think that would lead to a more efficient estimates review process.

Mr. Smith: This is maybe really stepping out of line in some ways. Could there be a committee--maybe the auditor's, I do not know--that could zero in on a number of questions that should be asked of each ministry or department and could those those given to the estimates committee or whatever committee is going over the estimates so that it could get those questions answered? They could still give their political statements if they wish, but there are some questions that should be asked. As a new member, you do not really know all the things that you should be asking. Can anybody do that? That may be stepping into uncharted waters here, I do not know.

Mr. Leishman: All I can say is perhaps your caucus research staff could zero in in more detail on specific questions of six ministries, more so than they can with a number right now.

Ms. MacDonald: One thing that has been mentioned repeatedly in past reports is that if some specialized estimates committee is to be set up and if it is actually going to look at the nuts and bolts of expenditures and proposed expenditures, it would need some staff in order to be able to function. It is just a tremendous amount of work to read through all those things and come up with those questions.

Mr. Dietsch: Obviously, if you do not augment the committee with some staff, then it is going to serve no useful purpose whatsoever.

For those of us who are new to this political arena, perhaps you can walk us through what you consider to be an area--for instance, you are going to take the ministries, divide them up, do six a year and do them in depth. You are going to do things like what? Are you going to question the programs, the staffing and all the expenditures? Is that what you are suggesting?

Mr. Leishman: At the estimates stage?

Mr. Dietsch: Yes.

Mr. Leishman: Yes, you would question the staffing. You would question how they are implementing the programs they have.

Mr. Dietsch: When you question money being spent on programs, do you get into the rough waters of treading into policy, or is that an area where you very much should be treading?

Mr. Chairman: That is where the estimates committee should be treading, but not the standing committee on public accounts.

Mr. Dietsch: So you would question all those particular areas. When you are looking at these programs, etc., would you be looking at value for money as well?

Mr. Leishman: Yes, we would be looking for value for money. We would be looking for compliance with acts, regulations and orders in council. We

would also be looking in detail at what was discussed during the estimates process during the estimates meetings.

Mr. Dietsch: I am talking about that estimates committee; I am sorry.

Mr. Leishman: Oh.

Mr. Dietsch: I already know, from sitting on the public accounts committee, what it does, but I am more interested in the structure of this new committee you are proposing.

Mr. Leishman: In essence, we are just expressing support for the recommendation that has already been made by the procedural affairs committee and the public accounts committee that perhaps the estimates could be dealt with more efficiently if a separate committee were set up to discuss them. I would think that at the estimates stage, they would be interested in how effectively the ministry has undertaken procedures to measure the effectiveness of its various programs in the past and what the results are of those effectiveness reports. How efficiently is the ministry administering X program or Y program and how efficient is it planning to be? Are there any efficiency measures or ratios that can be presented compared to previous years to show that the program is being planned to be run more efficiently than it was in the past?

Mr. Dietsch: The area with which I am running into difficulty is this: You will review this during estimates and you are going to do, let us say, six a year. Then what? You are going to move on, the next year, to do another six, but where do you get the follow-up with your estimates, or is that the end of your mandate and then you hand that over to the public accounts committee?

Mr. Leishman: That is where we would come in as the Office of the Provincial Auditor. We would then audit those six ministries. The results of our audits of those six ministries would be included in our annual report, which in turn would be reviewed by the public accounts committee.

Mr. Dietsch: So the actual parameters of your job would be in reviewing the estimates only. When that job is done, you move on and you hand that report over to the auditor and then he does what he normally does.

Mr. Leishman: No, we would not review the estimates. As auditors, we would review the programs and activities within that ministry, the actual results of its operations from the viewpoint of value for money, compliance with legislation and whether any programs brought up at the estimates meetings have been properly addressed by the ministry.

Ms. MacDonald: Finally, at that phase, the process would go something like this: The estimates would come to the new estimates committee. They and the staff would take a look at it and would basically challenge the department on why it is asking for more money in this area or proposing a program.

They are supposed to look at the base perhaps and at what might be reduced. Once they have completed that work, they report the estimates to the House. They get passed, the department spends the money and you go in and look at how it has spent the money and whether it is in line with the estimates

discussion and whether there has been value for money. That then goes to the public accounts committee and it sort of flows through the system.

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Mr. Leishman: That is right. One key link in this process would be some procedure whereby the budget could be presented earlier than is presently the case, and the estimates could be reviewed earlier than is presently the case. Presently, the budget for the current fiscal year, I understand, will be tabled next week. Under the current process, the estimates of the various ministries will not really be reviewed in any detail until likely the months from October until December. By that time, the year is two-thirds over. If that process, as I understand from the research paper, can be moved up as it has in the federal government, that would be a key beneficial item.

Mr. Dietsch: Has there been some type of a balloon in this respect or some type of prior commitment to try this sort of thing? Has this ever been done before?

Mr. Chairman: I cannot report to you what another committee is doing, but from the grapevine and what I have been speaking about to members of all parties on the standing committee on the Legislative Assembly, I gather that they are fairly close to reaching some consensus and that the consensus fairly well reflects what this committee has been recommending for a number of years and what the Provincial Auditor has recommended in his report.

They are putting the flesh and bones, if you want, on the essential principles that have come out. As I see the accountability cycle, one possible scenario is--to take you back and make it even more complicated, the government has an idea and wants to do something, so it ends up introducing a bill. It seems to me the bill then is debated in the House as to whether it is a good idea or whether it is a bad idea. It is then referred to a committee. It seems to me that part of the accountability cycle is that it should be reviewed by two committees.

There is the committee it is sent to that examines it as to the same questions that would be examined in the House. Is it a good idea? Is it a good policy? Is it a bad policy? Is it a waste of money? Should we be doing this kind of thing? The standing committee on regulations and private bills, though, at the same time should be looking at the regulations and asking such questions as: "Are the regulations that are being put in this bill consistent with the main policy of the bill itself? Are they fair? Is there a possible breach of the Constitution?" It should be that kind of thing, not whether the bill is a good idea, but at least whether the regulations meet the technical requirements.

Then there is the estimates committee and it deals with the whole ministry. At that time, it may also deal with the bill and with what is going on with that bill, but it is dealing with the whole, and the policy of that ministry.

At a later stage, the auditor goes in and this committee then steps in and says, "Are the intentions of the government being carried out and are they being carried out in the most efficient way possible, or somewhere down the line, is some public servant or something or other mucking up the pie and wasting the money?" That is kind of the layman's version, I think, of the accountability cycle.

Mr. Carrothers, you seem--

Mr. Carrothers: I was just curious, Mr. Chairman, about your regulations commentary, that somehow regulations are not normally in place when the bill is before the House. I wonder how the process would work. Regulations come through the ministries and are approved in a process through cabinet. The committee at the present time looks at them after they have passed, not before.

Mr. Chairman: The regulations committee often will--

Mr. Carrothers: I guess I am back to my original comment. That is a pretty substantial change in how we do things.

Mr. Chairman: Other jurisdictions are doing that. The regulations committee would also have the right to come back at any point in time and review the new regulations and say they are not consistent with the bill, in the same way we have the right, in an analogous situation, to come back and say the bill is not being implemented.

Mr. Carrothers: But once they are in place, then the committee does have--

Mr. Chairman: There are regulations in bills now that come forward with regulations. I think one of the things the regulations committee is looking at is a proposal that maybe the government should spell out some of its regulations when it introduces the legislation.

Mr. Carrothers: Yes.

Mr. Ballinger: I was interested in your comment about the present process, which you believe is sort of a shotgun approach to reviewing all 28 or 30 ministries. Do you really believe that isolating or zeroing in on five or six each year over a five-year process will give more accountability to the process than at least trying to keep everyone reasonably on their toes by virtue of the fact that each year they have to go through this cross-examination?

Mr. Leishman: Yes.

Mr. Ballinger: What happens to the five or six that may be at the tail end of the five-year program? What do they do in the interim? What process do they go through on an annual basis, waiting for their turn to appear before this specific committee?

Mr. Leishman: I could say a few things in that area. The five or six that are going to be at the tail end of the process would not necessarily know that right away. The five or six to be discussed every year could be agreed upon between the three parties a year in advance. Rather than deciding on a five-year plan and making it public, they could just decide on the estimates that are to be reviewed during the next year. Also, the fact that they are not going to come up for estimates review for a period of five or six years certainly does not preclude our office from doing an examination of any particular ministry in any year.

Mr. Ballinger: I understand that, but in the political process we are the politicians. Your job as the auditor is to look at the programs and then sort of analyse the expenditures and report to the Legislature as a whole

on the overall expenditures. In the current process, at least now, the various ministries are accountable, through the estimates process, to the politicians. The mere fact that you will be able to oversee or at least review does not help us as a body at all, as far as I am concerned. I do not see the effectiveness at all. I would just as soon see all of those ministries have to come before a body of elected people on an annual basis and justify and account for what they are doing with public funds. On five or six ministries a year, I personally, as an elected official, do not see the effectiveness.

Mr. Leishman: Do you see the current process as being effective?

Mr. Ballinger: I would not say it is totally effective, but at least it makes them somewhat accountable. If you are going to select only five or six a year, I do not see where the accountability comes in for the remainder of the ministries.

Mr. Leishman: It does come in in various aspects, through question period in the House and legislation being introduced in the House. Do you have anything to add to that, Mr. Calderwood?

Mr. Calderwood: The element is the attitudinal problem that has been identified here. If the ministries realize that even though their estimates are coming up before the estimates committee the politicians are going to talk politics, then there is really no fear or no incentive for them to be concerned.

This is the choice that seems to have to be made: either look at them all in a very shallow way, because you cannot do all 28 very well in 420 hours, even though you focus on the financial aspect of it, or the other choice is to select a number and make it, as has been said here, a very in-depth view of those programs and hold those ministries accountable.

If the questions are well formed at that point in time, even though the committee may not be able to assess the answers, from our point of view it would give us a very good basis, at a later date, to look at those answers, assess whether they are valid and whether they did in fact follow through on them, and then be able to present the public accounts committee with a much better assessment.

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Mr. Ballinger: I understand that fully. The problem I have is that in the process, it becomes all of a sudden a rotating cycle so that for one year you drag six ministries up and make them justify. You completely dissect each and every program and make them totally accountable for one shot every five years. I just do not see that as being a more accountable system than we have now whereby each year, albeit it may not be as intense as what you are recommending, they at least have to go through an accountability session. I see that as lending itself to creating more abuse of the system because the gang knows it only has to come before the committee once every five years with a real total picture.

I personally do not think that is a very solid recommendation at all for an accountability session of public accounts.

Ms. MacDonald: The chairman had mentioned earlier that one of the things under consideration is for the standing committee to put a more systematic process of departmental scrutiny in place alongside this to take a

look at the operations, the mandates of departments. The potential exists to set a more structured process in place for choosing which departments are going to be looked at. It is true, though, that they would not be looking at the expenditures necessarily. One of the criticisms is that this is not always happening now in the estimates process. I think the whole question of how best to scrutinize departments' activities is a difficult issue. There is no question about it.

Mr. Ballinger: Especially with the bureaucracy. If I was in charge of a bureaucracy and I knew I was only going to be tested once every five or six years, it would be a hey-day.

Mr. Chairman: Except that a lot of the programs are for three and four years, so what you do today you may be killed for four years from now if you are not careful.

Mr. Ballinger: The same guy might not be there either, and that is even worse.

Mr. Dietsch: That is assuming they are all doing something wrong and that is not necessarily the case.

Mr. Chairman: I am just talking about the ones Mr. Ballinger was talking about, not the--

Mr. Dietsch: So was I. I am not so sure that is accurately the case. Maybe it is an augmentation of both issues. Maybe you continue on with the one and augment the other program.

Mr. Pope: I understand, I think, what is being proposed. There is a gap there. As I understand it, based on my limited experience in the public accounts committee over three years, there are some limits on direction and guidance and there is what you may sometimes call interference by elected members in your auditing functions, the carrying on of your auditing functions as professionals.

I would have to hear in more definitive terms to what extent you as professionals, exercising your auditing functions with access to what might otherwise be sensitive information in the hands of the government, would be subject to the guidance of the elected members of the assembly and this committee. To what extent would you allow the presence of members of this committee or interference by members of this committee in your investigations? To what extent would you be willing to provide what would otherwise be confidential information to the members of the committee?

Unless those issues are dealt with, it appears what we are doing is supplanting one system with limited accountability for another system with limited accountability.

Mr. Chairman: Mr. Leishman, you have an opportunity to answer that very easy question.

Mr. Leishman: I think the problems there would be the same. Our auditing would not be any different than it is right now. I must say right now that in my experience, we do not get interference from the elected members. Information that should be made available to us is in all cases being made available to us. Some of it might be more difficult to obtain and might take

us longer to obtain than other information, but I do not think we are having any problems now and I do not foresee any problems.

Mr. Ballinger: Just one big happy family, you know.

Mr. Pope: Let me give you one example. I am not rewriting history, so do not get me wrong. In September 1986, this committee unanimously called for an audit of Wyda Systems and the auditor took the position, first, that you had no right to audit private financial records. It was then determined that there were some rights under the investment contracts to get access to financial information. After a lot of wrangling in the committee and a lot of motions and a lot of infighting--

Mr. Ballinger: I read all of that; it was interesting.

Mr. Pope: --the decision was made by the auditor and supported by the committee to perform an audit. Three months later, we got something called a financial review and an admission by the auditor that in fact you had not been allowed to perform an audit, you were not able to see beyond the numbers and you were just restating the numbers. I recall the meeting was on the second floor in the boardroom, and in fact no audit was ever performed. I know there was another firm involved, but it was co-ordinated through your--

Mr. Sciarra: No.

Mr. Pope: Oh, yes, it was. I was on the committee at the time. You were the ones who dealt with the committee and the decision was made to have an independent firm come in and audit. You were the system in that function and you had some difficulties with performing a function at that point in time. All I am saying is, we never did get audited information and the Ontario Development Corp.--

Mr. Ballinger: I do not meant to interrupt you, but can we have this clarified? Al is making a statement here and John is shaking his head no. As somebody new, quite honestly, let us just have that clarified so that Al could proceed with his point.

Mr. Chairman: Why do we not let Mr. Pope conclude his historical remarks and then the auditor's staff can comment?

Mr. Pope: Maybe I will just jump right to my conclusion then. I am not satisfied--

Mr. Pouliot: That makes for a good story.

Mr. Pope: Yes. I will jump right to my conclusion. I am not satisfied that the auditor is prepared, for good reasons relating to his professionalism, to accept any detailed advice and direction from the elected members of the Legislative Assembly. I think the auditor sees his function, and he has some legislative and historical base for this, as reporting to the committee and having the committee review his report.

That is quite different from the auditor beginning to exercise an operating auditing function of some of the ministries and, somehow, this committee having some role to play during the time of that audit. I am not so sure the auditor is saying that he would have a system where members of this committee, during the time of the audit, would muck around in it and direct

the auditor what documentation and what detailed financial information should be extracted from a ministry.

Mr. Chairman: Mr. Archer is not here, but if his staff wishes to comment on that, feel free to do so.

Mr. Ballinger: I am just interested in a point of clarification that Al made as it relates--you were shaking your head no. For the record, can we--

Mr. Sciarra: Yes. The only clarification I would like to make is that in your reference to the audit that was performed regarding Wyda, we were not the auditors who performed that audit. It was a firm engaged by the ODC and this committee concurred with that engagement through ODC. That is the only clarification I would like to make.

Mr. Chairman: The ultimate recourse the auditor has, of course, is to take the government to court. That is in fact happening in one jurisdiction at the moment.

Mr. Dietsch: Not in Ontario. It was Manitoba, was it not?

Mr. Chairman: It is the federal government at the moment.

Any further questions?

Mr. Runciman: I want to indicate my general support for the proposal. I can understand where Mr. Ballinger is coming from, but watching the estimates exercise around here for a number of years, it is essentially a charade and it is virtually, as one of the gentlemen pointed out, all politics. I think if we want it to be a meaningful exercise, this is something we should at least give a try. It sounds to me like it indeed could be helpful to all of us as legislators.

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I understand there are some restrictions in terms of time and availability of staff and the rotation in terms of taking a look at various ministries. But again, it was indicated that we are not going to be restricted to those five or six. The auditor is, as a matter of general course, going to be looking at ministries across the government on a regular basis. So I do not think that concern is naturally one that we should be too bothered about.

What Mr. Pope has suggested--and I was not with you in Washington, but the other committee I went down with, the standing committee on government agencies, met with the General Accounting Office and also with a committee of Congress called the government agencies committee or something like that. They have a very close relationship with the GAO. One of the things they have found most helpful is the assignment by the GAO of investigators to the committee. In effect, they are working for the committee for a significant period of time and they are answering to the committee. They are not answering to the Provincial Auditor. They are a committee of employees for that period of time, and that is something we may want to consider.

It also deals with Mr. Pope's concern so that you do not have that mixed concern, if you will, of having auditors working for this committee and also having to respond through the Provincial Auditor, etc. They are solely our responsibility.

Mr. Chairman: That is pre-audit work rather than audit work, is it not?

Mr. Runciman: I am trying to recall. I know that they have people on staff and they are sending them all over the country and the world carrying out assignments for the committee itself and not for the GAO directly. It is something Wendy may want to get some more information on. It may be appropriate in terms of the recommendations.

My only concern sort of ties in with Mr. Pope's. It is what we have seen happen in the past year with the Premier (Mr. Peterson) and the IDEA Corp. matter, referring that to the Provincial Auditor in respect to political interference. I felt that was a totally inappropriate initiative, and Mr. Dye in our meeting in Ottawa suggested he would have fought that tooth and nail. We talked about the same matter in Washington with the GAO and the people there thought it was inappropriate.

Mr. Archer and his staff do an outstanding job for this province, but I personally would have liked to see him take a much tougher stand in respect to that reference and object to it very strongly. We will have to see what the report says ultimately, whether it deals with those issues, but that was a concern of mine and the entry of politics into the operations of that office should concern all of us.

Mr. Chairman: I am sure Mr. Archer's staff have taken note of that, and perhaps you will want to question Mr. Archer during his estimates.

Mr. Carrothers: I just have an observation and a question. It seems that if one looks at the broader picture here, we seem to be talking about the resources available to committees. We seem to be deciding that because the estimate process overburdens the standing committees as they presently exist, we are going to take the estimates off and produce a special procedure with some staff resources to look at them.

The question I have is, instead of having this financial oversight off on what might be the policy oversight that the standing committees do normally, why not just increase the resources? Why is it not an equally useful proposal to increase the committee resources and leave the estimates with the committees relating to the various ministries as it presently stands?

Why are we taking out financial and making a special model? I take very much Bill's point that if we are looking at something every five years, you know you are going to be looked at in five years, I know what that does to an internal process, knowing that you are not being looked at. The possibility of being looked at every year I think would be a much better control. Maybe it is a question of increasing the resources to all committees and leaving it where it stands.

Mr. Chairman: Maybe the resources need to be increased to all committees. I think the rationale for some of us who have been around here for a long time is that we simply feel nothing is looked at in sufficient depth to really be meaningful. The estimates just become a political grandstand for whoever wants to send something back to Mrs. McGillicuddy because she is concerned about some particular item. There are other ways of doing that rather than through the estimates process.

Mr. Dietsch: Do you have something against Mrs. McGillicuddy?

Mr. Chairman: I am sorry. Is she one of your constituents?

Mr. Carrothers: It seems to me to link up. I do not know how you separate the policy from the financial here anyway. If you are leaving it with one group that is dealing with social policy and the ministers relating to that, let it look at the financial and policy side. It seems a more effective way than separating them, that is all.

You were talking about political grandstanding. From my observation of the system, I am not sure you will ever take it out of it.

Mr. Chairman: I am sure all members of the standing committee on the Legislative Assembly will be reading the Hansard from today and your comments will be noted. I do not know what else we can do in that regard.

Mr. Offer: Mr. Chairman, as a point of information that you may have on hand, do you have any figures for the last full year as to how many estimates were, in fact, completed in terms of their full hours?

Mr. Chairman: It is funny, I just asked our clerk that question. That was a point that was being made yesterday by a few members, but I do not know what the figure is. Remember, we did have an election that kind of interrupted us, so it was an abnormal year.

Mr. Offer: If not last year, then the year before; or do you have a feel as to the number per year that is looked at where the full hours are expended?

Mr. Sciarra: As far as I am aware, the 420 hours are never used up.

Mr. Offer: I know, but the numbers have been allocated.

Mr. Sciarra: They are never totally used up.

Mr. Offer: I think the question that Mr. Ballinger and Mr. Carrothers are getting at is this: Will reducing the number of ministries that we are looking at in some way possibly have a negative implication for those that are not being looked at? My concern is that possibly we are not looking at very many ministries in reality now, in terms of full analysis, forgetting about the type of analysis, but in terms of the analysis itself. We might be talking about something which really is not much different from the situation at hand.

Mr. Sciarra: That is true.

Mr. Chairman: Any comments on that from the auditor's staff?

Mr. Calderwood: I guess I come back to the attitudinal problem. Unless the members are prepared to focus on the financial aspects and those related effectiveness issues, then I do not think the process can work as well as it should. Apparently, too much time is taken up on political issues related to the ministry or the constituency but not enough on the actual penetrating questions on the ministry's application of the government's policy in relation to the financing of programs and the delivery of those programs.

Mr. Pouliot: We know the allocation was 420 hours to review all

ministries. How many hours did the members spend reviewing estimates last year? Would it be 300, 320, 240?

Mr. Sciarra: Very few.

Mr. Pouliot: When the House was not sitting, did any committee entertain estimates? I do not mind entertaining a better mousetrap, but changing the brand name will not do it. Let us face it, the difference between a majority and a minority government often means up to two months of sitting. You do not have to answer this, but a majority government seldom wants to sit very much in the first year of office. Those are real facts. The thing is, we spend very little time--in fact, we spend no time--looking at estimates, and those standing committees are active when the House is not sitting. Just look at the per diem that has been paid.

For what it is worth, would it be practical and functional to entertain estimates under committees when the House is not sitting? Time is really an important element here.

Mr. Chairman: I think there are a number of reasons the House leaders would be pleased to share with you why that has never been done; one of the reasons being that if you do them out of committee when the House is not sitting, there is no reason for the government to call the House into session. I suspect that if they are going to the calendar year, to a specific sitting time, that problem may be remedied, and that is one of the things the other committee is dealing with.

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Mr. Dietsch: My comment is much along the same lines as Mr. Pouliot's. I think I said very early on in this committee that if we did not have the time or if the workload did not permit us to sit to review estimates during the particular time we are confined to when the House is sitting, perhaps there can be a specific allotted time outside of when the House is sitting when we can deal with them.

I am not suggesting that it is open-ended. I think it has to be dealt with in time restraints. For example, if we did not use the full allotment of time while the House was sitting, maybe there would be room to move up to that allotment to look at that aspect of it.

I, as a new member, have a very difficult time, particularly today, in dealing with the recommendation that is before us. Having not gone through a lot of estimates, I am somewhat at a disadvantage, and I am sure many of our newer colleagues would find it that way. I want to make sure it is on the record that that presents a difficult area for us, not having gone through it, or having gone through it very few times, in terms of really being able to see the effectiveness of it and really to be able to garner a solution which we think would augment the programs to make them a lot more effective.

Mr. Runciman: Just a brief comment. The reality is that we do not have enough hours in the day to do what Mr. Dietsch is suggesting. I know that especially, certainly in opposition, the two parties have more than enough on our plate, and even when the House is not sitting, with the sparse numbers, we are going constantly in the periods the House is not sitting because of the numbers question.

I guess I have not been around here as long as Mr. Pope and some others,

but I have found the estimates process to be fraudulent, really. We are not accomplishing much of anything other than perhaps, as the chairman suggests, getting a headline or two in your local newspapers. It is not a meaningful exercise for anyone involved.

In terms of the ministries being on their toes, I think it is a total waste of money. You can come in here and you have an estimates process with the ministry. You have got this room packed with ministry officials for three, four, five days, what have you, away from the ministry. Considering the time and money lost, it just boggles the mind. I think if this can improve on that process even a little bit, it has got to be helpful to all of us and helpful to the taxpayers of this province, and I think it is worth a try.

Mr. Dietsch: As a new kid on the block, as it were, I can accept your comments in respect to its not being perhaps as effective as you would like to see it, but certainly I cannot imagine that it would be fraudulent.

Mr. Runciman: I think it is.

Mr. Pouliot: It is a big disgrace.

Mr. Chairman: Are there any further comments? We do have a vote in the House. If there are no further comments, then we will adjourn.

Wendy will be preparing some of the issues raised by the members. I remind you that next week's session is extremely important for those members who served on the committee during the hearings on mental health and on the Ontario health insurance plan, because we will be preparing, in camera, a report on those. If some of you were not here for that particular session, maybe you can encourage whichever member substituted for you. We did have some excellent members during that committee. I have spoken to at least one of them myself, saying that I hope that member shows up for the writing of that particular report. It is an important meeting and it will be 10 o'clock next Thursday, in camera.

The committee adjourned at 11:46 a.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87:

MINISTRY OF COLLEGES AND UNIVERSITIES
COMMUNITY SAFETY

THURSDAY, APRIL 28, 1988

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Ballinger, William G. (Durham-York L)

Carrothers, Douglas A. (Oakville South L)

Dietsch, Michael M. (St. Catharines-Brock L)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Offer, Steven (Mississauga North L)

Pope, Alan W. (Cochrane South PC)

Runciman, Robert W. (Leeds-Grenville PC)

Smith, David W. (Lambton L)

Substitutions:

Adams, Peter (Peterborough L) for Mr. Dietsch

Cunningham, Dianne E. (London North PC) for Mr. Pope

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Colleges and Universities:

Brzustowski, Dr. Thomas A., Deputy Minister

Kleiman, Richard, Director, Student Awards Branch

Anderson, Douglas M., Manager, Verification, Student Awards Branch

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

ERRATUM

In P-14, page P-24, line 1 should read:

and so on. If we are going to ask that person to ship to 622 stores and 17,000

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, April 28, 1988

The committee met at 10:14 a.m. in room 151.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87
MINISTRY OF COLLEGES AND UNIVERSITIES

Mr. Chairman: I am going to recognize a quorum. I am pleased to welcome Mrs. Cunningham to our committee. She is a newly elected member and has made her impact on the Legislature already by asking a question the first day.

Mr. Ballinger: The mere fact that it was not a very good question has nothing to do with it.

Mrs. Cunningham: I thought it was a good question.

Mr. Chairman: I thought it was an excellent question.

Mr. Ballinger: You like that kind of stuff.

Interjections.

Mr. Chairman: Anyway, we are pleased to welcome her.

As the members agreed to our agenda, which of course can always be flexible, we do have a notice of motion at 11:30 from one of the members on the committee and we will debate that at 11:30.

Today we are dealing with section 4.4 of the Provincial Auditor's report, "Additional Monitoring and Verification of Information Required, Ontario Student Assistance Program."

I am going to suggest that we proceed in the following manner: There will be opening remarks to the standing committee on public accounts. Then Mr. Archer may have some comments in response. Then I suggest we deal with the items in order and that we restrict our questions to the particular items. You will notice that a logical breakdown would be the prevention of fraud in processing of grants; the second issue, the prevention of overpayments through strength and verification of student information; the third issue, the overpayments, defaults and recoveries; and the last, any additional questions or matters that might deal with a number of the issues.

We are pleased to have before us Dr. Thomas Brzustowski, who is the deputy minister; David Lyon, executive co-ordinator, corporate planning and services; Peter Wright, director, college affairs branch; Rick Kleiman, director, student awards branch; Doug Anderson, manager, verification, student awards branch. With me on my left, I am sure all of you know Douglas Archer, our Provincial Auditor; Michael Teixeira, the director; and Rudolph Chiu, the audit manager. They are in that order on my left. Maybe we can start.

Mr. Brzustowski: I will read the statement that has been handed out and we are very happy to proceed in the way you have outlined.

I want to thank the public accounts committee for the opportunity to present the ministry's response to the Provincial Auditor's report.

The Provincial Auditor has made some very useful comments on the administration of the Ontario student assistant program, OSAP as it is known. I am pleased to note that the report concluded that grants and loans were processed and paid in accordance with established procedures with respect to OSAP. Over \$400 million is issued annually in the form of grants, bursaries, loan interest and student loans to approximately 114,000 students. Just parenthetically, that is about one third of the full-time post-secondary students in the colleges and universities and in the private vocational schools.

When one considers that this is done only after a detailed financial assessment and within the time frame of the school year, you can understand the ministry's pride in the operations of the awards branch. The Provincial Auditor did, however, suggest that some improvements were possible. I wish to address these recommendations at this time.

His comments focus on two areas: (1) processing controls at community college and university financial aid offices; and (2) verification of income and assets information provided on student aid applications.

The financial aid offices in Ontario's universities and colleges participate in the administration of the provincial student awards program. They are the ones who receive the applications from students. They prepare them for processing and follow them through to the final issue of aid to students. They monitor the applications during the year and take action if there is a change in the student's circumstances. The post-secondary institutions also undertake responsibility for ensuring delivery of financial aid, whether it is cheques or loan documents, to the students in accordance with their internal control procedures.

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The financial aid offices are subject to a procedural audit by the student awards branch verification staff on a two-year cycle. The purpose of the audit is to confirm that ministry policies and procedures are correctly applied and that grant cheques and student loan documents are held in secure storage until released.

I am pleased to provide this committee with a list of the institutions visited by student awards branch personnel over the last two years. This is in appendix A. There is only one comment to make about that, Mr. Chairman, that might not be self-explanatory and that is that the Ministry of Colleges and Universities financial office is included among the institutions in the sense that this office provides a service for private institutions that do not have their own award office. In one sense, the MCU office functions as the local office.

The satisfactory academic progress of students has always been a requirement for continued funding from the Ontario student assistance program. However, it should be noted that the post-secondary institutions determine academic standards and requirements regarding entrance and class attendance. Because of some concerns where students have been allowed to continue in their studies without passing or completing the course requirements, a definition of satisfactory academic progress and related procedures was directed to all

institutions in July 1986. The requirements are presented to the committee in appendix B. These requirements are now part of the audit performed by the ministry staff on financial aid offices.

The specific case of fraud, which is outlined in the Provincial Auditor's report involving two persons impersonating 60 individuals, and thereby defrauding the program of \$175,000, was a well-conceived criminal act, which involved the forging of high school transcripts to gain entrance to universities. While additional identification is now required before funds are released, to expand our procedures beyond what is presently in place would only impose severe restrictions on the distribution of funds and inconvenience students unnecessarily.

I come back to an earlier comment that the timeliness of the award of the support is really crucial. One has to get it out early in the semester.

The procedural audit of financial aid offices now includes a review of identification required from the student before the release of assistance.

Concerning the segregation of duties at financial aid offices to ensure that those handling OSAP applications are not later in receipt of grant cheques, the Provincial Auditor's report contains my reply to him that all institutions were written to by my predecessor and requested to provide assurance by their respective auditors that the proper segregation of duties was in place. A copy of this letter is provided to the committee as appendix C.

For the committee's information to date, 41 out of 50 institutions have responded with written assurances from their auditors that proper controls and procedures are in place or are being implemented. The remaining institutions have been contacted and reported that the matter is being considered by internal or external auditors and a response will be forwarded to us once an audit of the area is completed.

The verification section in the ministry is staffed by 12 people, and that is a very important function. Most of the verification activity is to prevent abuses by students and to ensure that eligibility requirements are indeed met. This work is done either on a 100 per cent coverage or on a percentage sample basis as necessary. This mainly depends on the time, resources and manpower available. Somewhere between six and 10 students are taken to court and prosecuted each year on the basis of what the verification section turns up.

As was indicated in the Provincial Auditor's report, complete verification of parental and spousal incomes with Revenue Canada has been conducted for several years. Technical problems have delayed the implementation of the verification of students' incomes. One of the major problems we still encounter is the fact that students usually attend school over parts of two calendar years, whereas income is reported to Revenue Canada on a calendar year basis.

Students can earn considerable income during the periods for which incomes are not required to be recorded to OSAP, for example, after the student has left school. Discrepancies of thousands of dollars can, therefore, appear to exist when in fact all reporting is honest and above board, but the time periods are not in step. Therefore, the verification of students' income is labour-intensive and requires contact with the student to clarify when the income was actually received.

Starting this fiscal year, incomes of all students are being compared with what was reported to Revenue Canada; 46 per cent of single, independent students had income discrepancies of more than \$1,000. Therefore, additional human resources will be necessary to perform a more comprehensive audit of the students' income. We intend to approach Management Board to request additional resources to address this very issue.

The asset assessment policy was introduced in 1978 to ensure that students with high assets used their funds first before seeking provincial aid. Each year a number of complaints are received about students or parents with high assets. This a bit of finger-pointing. Somebody becomes very visible and draws the attention of his neighbour or a fellow student. These are followed up to ensure that the assistance provided was indeed legitimate. Asset verification entails not only time and cost but also expertise. We are now in the process of exploring the feasibility of using existing databases with a computer program to assist us in this process, especially with residential real estate, and that is a very difficult component of it.

In the meantime, we have made changes to the 1988-89 OSAP application to request that those persons with a principal residence indicate the year of purchase, purchase price and the postal code to help us locate it. We hope to use this information to tabulate an estimated current market value in light of price increases from the time of purchase and to compare them with sales in the area during the past few months. That just begins to hint at the complexity of that part of the process.

Verification of motor vehicle values is also under active consideration.

The nature and extent of asset verification will, however, depend on the benefits expected in relation to costs involved. In the meantime, changes have also been made to the 1988-89 application form to request that all students report the year, make and model and the number of cylinders of the car. We are hopeful this will reduce the number of cases where students do not report cars and assist us in establishing an estimate of the value of their cars.

We do acknowledge that there has been some abuse of the program by some students. In discussing this problem with student awards branch staff, they reported a number of difficulties. In order to make the program accessible to students, the program becomes open to some abuse. If we were to tighten the criteria too stringently to prevent any possibility of abuse, the processing of applications would slow down and students would not receive their assistance in a timely manner, and there is that element of time again. This would discourage some needy students who require assistance at the beginning of their academic year from attending a post-secondary institution.

Having recently moved into my position, I have gained an understanding of the conflicting pressures imposed on the student awards branch in terms of limited time, limited resources and maintaining service to students while maintaining an economical operation for the taxpayer. However, the overriding goal of the program remains, and that is to ensure that assistance is provided to the student in a timely and efficient manner, and we really cannot overlook this important aspect of the program.

I would now like to comment about loan defaults. Since the inception of the program in 1975, a total sum of \$226.45 million has been negotiated by 213,233 students. While approximately \$26 million of this amount has gone into default, only \$3 million has been written off as uncollectable. The remainder

of the \$26 million is still under active collection. This means that the total of all loan write-offs from the inception of the loan plan to this year accounts for only 1.3 per cent of the total loans negotiated during that period.

In closing, I would like to assure the public accounts committee that the student assistance program in Ontario has a number of built-in controls and checks to ensure that abuse of the program is minimized and that the available funds are channelled to those students who are in real need. There is a strong commitment to providing timely service to these students who require financial assistance. It is this service commitment which we will continue to use as an important measuring device for determining the appropriateness of any control methods, while at the same time seeking ways to improve the controls and checks.

Thank you, Mr. Chairman. That is the end of my statement and that has been distributed.

1030

Mr. Chairman: Thank you, Dr. Brzustowski. Mr. Archer.

Mr. Archer: I have no specific comments on the deputy's opening remarks. I found them very frank and positive. I think the committee would just want to commence its questions.

Mr. Chairman: We will start off with looking at the prevention of fraud in the processing of grants section. My first questioner is Mr. Smith.

Mr. Smith: I hope I fall into the category you have suggested there, but it is a problem I see arising out in my rural riding. I know that with homes, you take a net value of the home. You take the mortgage, you say the value of the house is so much and you deduct and get a net value. But out in the farm community, I have had many people come to me. You only take the assets of the farm; you will not allow for the liabilities to be deducted. I guess I just want to hear your comments. In my opinion, it seems unfair to the farming community. If you are going to allow it in the urban sector, why do you not allow this to happen, to get a net value on the farm?

Dr. Brzustowski: I am going to ask Rick Kleiman to deal with that in a little more detail than I shall, because he has been thinking a lot about it. It is evident that the question is directed at one of the most difficult issues we face. The whole question of assessing assets raises all the issues one hears about in the debates on market value assessment, the debates on farm assets and farm incomes. It is one of the most difficult aspects of the problem. The branch has persuaded me, not by making a speech or anything of that sort, but by the examples and demonstrations they have given me, that they try to be very flexible and discerning in applying these regulations. If you do not mind, Mr. Chairman, I will turn it over to Mr. Kleiman.

Mr. Kleiman: I would like to reassure the committee that in assessing any asset, the student awards branch is always looking at the net value rather than the gross value because, obviously, there is a wide variety of debt that has to be set off against any asset to get at the true value. We have to bear in mind that the purpose of the assessment of assets in the first place is to see if the individual, the student in the case of student assets, or in the case of families, whether the family is in a position to provide

that assistance for the student. It is only by seeing the net worth of a farm enterprise, for example, or of a residence or really of any asset, that you can make that judgement. You can not do it on the gross value.

Mr. Smith: I could give you one example very quickly of a family which was being taken off their farm. They had assets; their farm was valued at X number of dollars--we will say maybe \$100,000--but their liabilities were well over what the assets of the farm were. They were being told to get off the land, their farm was in receivership, yet those people could not get a loan for their daughter, I believe it was. They finally did get through and make the point, but it seemed to me that it is very unfair. If you will take the net value of a house but you will not take the net value of a farm, it gets close to, in my opinion, discriminating against the farm community. I have had many problems. In fact, our son has gone to university for three years and I would not even go through the performance because I said, "You would be denied anyway, Steve, so we'll just carry on." I hope you are looking into it and I appreciate your answers here today.

Mr. Chairman: Do you have further comments, Mr. Kleiman and Dr. Brzustowski?

Mr. Kleiman: No. I just wanted to reassure the committee that we are indeed assessing the net value. What can happen is that if the enterprise is particularly large, their operating margin may be very tight as a consequence of the debt load and the servicing of that debt. Even though the net worth may be sufficiently large, in effect, to prevent assistance to that student, there may be a considerable debt load. That is why there is provision for an individual review where necessary. That process is usually initiated by the student at his or her particular institution. I want to reassure the committee that it is indeed the net worth of any asset rather the gross value.

Mr. Chairman: Mr. Pouliot, on item 1.

Mr. Pouliot: I too have had the opportunity recently to meet with concerned students regarding the very process that you are involved in. After some explanation, I began to share their fear in terms of the forms being complex, intimidating and conducive to some white lies, if there are any such things, whereby people would almost be invited, in order to secure a loan, to minimize assets and to catastrophize liabilities. It is sort of a normal reaction. It is not unlike some of us may do from time to time when we fill out our income tax report. In our case, it is different. It is a duty.

People are concerned. In your presentation, you mentioned additional money needed so that you could monitor compliance and could better administer your program. Given the complexity of the program, the percentage of the overall program, the cost to administer the program and yet the intent of the program, which is to benefit the less fortunate, people with fewer assets, what percentage of your program goes to administration, for instance?

Dr. Brzustowski: I will break this down from the level of the ministry. I am really grateful for the question, because it gives me a chance to say publicly that the Ministry of Colleges and Universities operates for eight tenths of one per cent of the funds that it handles; 99.2 per cent of the funds that MCU receives from government are, in fact, transferred.

There is a staff of roughly 100 people in the student awards branch. They administer a program which we have identified on the first page as being

over \$400 million to 114,000 students. I do not know what the salary bill is off the top of my head. I am sure Rick does, but it is within an institution that operates at eight tenths of one per cent of the total money transferred, so it is not going to be huge.

This balancing act between reinforcing the complexity by tight control and trying to recognize the need and delivering the support in a timely way--and it has to be at the beginning of the term for some people, and these are brand-new applications each time--is the complexity.

Mr. Pouliot: Just a brief supplementary. What is your definition of fraud? What constitutes a fraud? Are there several degrees, different frauds? Give me a case please, a pattern.

Mr. Kleiman: May I reply? When we are talking about fraud, specifically, we are talking about a Criminal Code offence. To deal with your second question first, the verification activities of the student awards branch cover a wide range of variation. There may be, for example, a variation in the income that is easily explained by some of the income being received by the student when he was indeed a student and some when he was not. Then there are varying degrees of discrepancies and inaccuracies up to the deliberate and malice aforethought of criminal fraud. Fortunately, criminal fraud is a very rare occurrence in the program. We had a rather spectacular case a couple of years ago of a very well-conceived criminal fraud.

Generally speaking--and it relates a bit to your first question, the question of inaccuracies--student awards programs, like any government program, I believe, dealing with a large number of people in the public, are always walking the tightrope between controls and service. They are always trying to strike that balance in providing comprehensive and accurate information in which to make an accurate judgement, on the one hand and, on the other hand, not to, as you say, intimidate potential participants by how onerous the information is in the first place. Obviously, if one is preventing the other, the balance is not struck. It is a constant search for that balance point, which is a large part of the administration of this program.

1040

Mr. Adams: In the first part of your remarks about the processing of the applications, you indicated how the various institutions do that. One of the problems I have faced is that students who live in my riding but go to university elsewhere often have problems occur when they are at home. By the way, on a personal basis I have often had good co-operation from the local university, but I know we are dealing with students from another university. Have you given any thought to that matter? It is the fact that the students' best advice, of course, is from their own institution, but often it is not there when they need it.

Dr. Brzustowski: That is a difficult question because we do depend in the program very much on the local institution. They are the people who are in contact with the students and are aware of the students' progress. Mr. Kleiman, have we encountered any of the other kind of problem?

Mr. Kleiman: It is kind of a tricky question to deal with because, on the one hand, we have an ongoing pledge of co-operation from the Canadian Association of Student Financial Aid Administrators of all the community colleges and universities, and the general Ontario student assistance program information is provided really at any location, including some of the high schools as well.

It is when it comes to the specifics of, for example, course costs at a particular institution that the difficulty occurs, because obviously one institution does not want to give information that is quite properly in the area of another. In the area of general student awards information, there is a high degree of co-operation with financial aid administrators.

Mr. Adams: I can see that you do understand my point. Often when the decision is reached, let us say it is during the summer, the students suddenly discover they are not getting anything. They then come to us. I happen to be from Peterborough, and they are going to Windsor, let us say. They find it very awkward. I just make the point.

By the way, the statistics do impress me: the small amount that is uncollectable or whatever your expression is. Is it really unfeasible, when you have got to a certain point in that process--I understand how you must do it; you must try to collect and all that sort of thing--to suggest that student associations might be given the right to collect? These former students with outstanding debts might be more sympathetic towards those student associations than they are towards us, the government of Ontario, and therefore you might reduce these figures even further.

Dr. Brzustowski: Is there a suggestion in the question that somehow the loop should be closed, that the student association should then transfer the money back to government, or would it keep it for its own purposes?

Mr. Adams: I was thinking of designing a scheme whereby it would be to the advantage of the student associations to collect these uncollectable debts.

Dr. Brzustowski: My first reaction would be, if one stands far enough back, I suppose, that would mean that--

Mr. Adams: People would deliberately not pay in order to contribute to their student associations.

Dr. Brzustowski: Exactly. It is almost an end run of our government's priority setting.

Mr. Adams: I simply wondered if one of the obstacles is that it is an impersonal debt, a debt to the provincial government, so that at some point someone says: "Well, to hell with it. It's just the government. I won't bother paying." But if they thought there was some-- You understand my point.

Dr. Brzustowski: I understand your point. I have not thought of it. I have not heard anybody suggest it.

Mr. Chairman: When the lien goes on their wages, then they have second thoughts about that.

Mr. Kleiman: Just to comment on Mr. Adams's intriguing suggestion, the difficulty is that the small number of cases which are uncollectable are indeed uncollectable due to illness on the part of the person, some kind of family disaster. When we boil it down to that small number which is uncollectable, I think they would be uncollectable in all circumstances.

Mr. Adams: Thank you. I was simply trying to be positive. That is all.

Mr. Kleiman: I neglected to mention that the student awards branch maintains a toll-free call-in service for the entire province, so in the cases you mentioned during the summertime, it is at that point that the students often call us for advice or comments on this.

Mr. Adams: I do appreciate that. Thank you very much for that.

Miss Martel: If I can just go back to the question my colleague raised concerning fraud, it seems to me there is a pretty fine line between fraud at the stage where it is a criminal conviction and fraud at the stage where students are underreporting parental income or not reporting cars or underreporting market value assessment for houses. I am wondering where you draw the line, because it seems to me that the forms may be difficult, but if you have a car and you are not reporting it, you have a good sense you are doing that when you fill out the forms. I am wondering where the line is drawn and in the second category, in terms of underreporting, what are the figures like in that area? How many students are caught in that?

Dr. Brzustowski: It is precisely to deal with that sort of question that we invited Doug Anderson to be here today. There is a very fine line and there is also a gradation around that line, which the verification group deals with. I think he is in the best position, with years and years of experience in that, to tell the committee what is happening.

Mr. Anderson: Basically, it comes back to a deliberate attempt to obtain funds by deliberately falsifying the information. We are very, very careful. I guess the simplest way to explain it is that stupidity is not a crime and most of the reassessments that we issue for recovery of money we categorize in the area of error, carelessness, whatever. It is when we get down to the issue of people claiming the family dog as a sibling, that type of thing, then there is obviously no mistake there.

Interjections.

Mr. Anderson: Also, because it is a criminal offence and there is going to be a record involved, the only cases that we actually refer to the Ontario Provincial Police are what we consider to be really blatant cases. For example, in the last year we investigated something like 349 cases for possible misrepresentation or fraud and we referred only 30 to the RCMP or the OPP.

We are very careful as to how we apply it. Most of the reassessment is required, in our opinion, through carelessness rather than deliberate misrepresentation.

Miss Martel: If I am correct, that group that is not convicted then represents the group in the overpayment situation. You are saying there were 349 in that situation last year?

Mr. Anderson: No; 349 were referred as a possibility that a criminal act had taken place, and we referred only 30 of that 349.

Miss Martel: OK. The figures might have been listed, and I apologize if they were. What were the numbers last year in terms of that group in the overpayment situation where, for whatever reason, mistakes or errors in filling out the form were left in the position so that then they are now overpaying because of that? Do you have any idea?

Mr. Anderson: I do not have the figures with me. There were approximately 4,500 reassessments, I believe, for around \$2.7 million in recovery and approximately \$200,000 in additional funds issued.

Mrs. Cunningham: First, I have a question with regard to the number, 14 of 27, I think, on page 3. When we are looking at the number 27, is that a total number of frauds that were discovered or is that just the number that were raised, that were known as part of the audit process? What does that number on page 3 really mean?

Dr. Brzustowski: Excuse me, page 3 of what?

Mr. Ballinger: Page 3 of our research material.

Mrs. Cunningham: Of our research material.

Mr. Chairman: They do not have that.

Mrs. Cunningham: You do not have it? OK, then I will--

Interjection: Not page 3 of your statement.

Mrs. Cunningham: Sorry. It says: "The auditor reviewed 27 cases where students had fraudulently received aid. Fourteen of these--over half--could have been prevented had there been stronger controls in such areas as monitoring of academic progress and validation of student identity."

That is what I am really getting at here. To me, those two things are basic. Some of the other questions that have been asked are much more complicated, but if we are getting problems with monitoring academic progress, which I think has a lot to do with attendance as well, and validation of student identity, if those things are being discovered as a problem, then I think we have got a more serious problem than most of us want to say we live with, all of us wanting to administer public funds in a responsible manner.

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Dr. Brzustowski: We have dealt specifically with those two aspects and we can table some--we have an OSAP recipient identification requirement guideline or form for the universities which now really nails down what kind of identification is required. We also have a statement on academic progress which defines unmistakably what measures of academic progress must be in place in order for the student to be advanced, in response to the comments that have been made.

Mrs. Cunningham: In response to that then, it is my understanding these processes were put in place last July as per the letter that you pointed out as part of your report? This would have gone in as of last July?

Interjection: July 1986.

Mrs. Cunningham: Have you done any follow-up or monitoring of this to see that it has been helpful or that you have less cases, or are you finding even more problems? Has this been a good thing to do?

Mr. Anderson: It was good. The basic difference was that we added this one piece of fairly personal identification. Actually, it is the social

insurance card. The first year it was introduced, which was as a result of the major fraud referred to, we had lots of calls from returning students who were quite indignant because they had never had to produce this before. That has died down. We basically have very few complaints about it. The biggest problem is when someone has lost his social insurance card, and unfortunately one has to pay a \$10 fee to the federal government to get a replacement. But we feel it has really taken care of that issue.

Mrs. Cunningham: Back to my original question--and this may not be one for yourself; this may be one for the auditor--why were we reviewing 27 cases? Was that just the number that happened to be pointed out as part of the material given to the auditor, or is that the number of cases the auditor had time to look at or is that the number of cases that actually took place and the total number?

Mr. Anderson: I think that is probably the number that we had referred to either the OPP or the RCMP at that time.

Mrs. Cunningham: But there may have been others?

Mr. Kleiman: Those would, in effect, be the worst of the worst. There is a sorting out of all of the cases where there is any discrepancy in the reporting of the income. Much like the process of making maple syrup, there is a lot of boiling down that goes on before we get to those people who have deliberately and, in our view, criminally misrepresented their finances, or in some cases there was a procedural misrepresentation.

When we are getting down to that small number of cases, we are in an area where we suspect some kind of criminal activity. As was pointed out previously, there are gradations of course. There are a number of points of intervention and activity that lead up to that to verify the pieces of information or, in this case, the identification; or in the case of academic progress, the institutions do so.

Mrs. Cunningham: So really my assumption that there were probably a lot of cases that the auditor did not look at which were not as serious would be a correct assumption?

Mr. Kleiman: Yes, and the procedural changes were intended to prevent exactly that situation. We do not want to overreact to the tip of the iceberg, but we assume that it is the tip of the iceberg.

Mrs. Cunningham: I just thought the number that one out of three full-time students is receiving assistance was a high number. Maybe that is not a good assumption, but it astounded me that it was the case. I have a lot to learn, so perhaps it is not unrealistic.

Mr. Kleiman: You have to look at it against the income profile of post-secondary students. There is a high degree of congruity between the proportion of students who are at or below median income and the number who applied and receive assistance.

Mrs. Cunningham: My guess also is that with the mix of population returning to school, we may even see more assistance being requested.

Could I ask one more question, with regard to the 100 staff? Where are the 100 staff people who are employed located?

Dr. Brzustowski: They are in the Mowat Block right now.

Mrs. Cunningham: So we have 100 staff to administer 108,000 loans to people.

Dr. Brzustowski: Yes, but in addition to that we have the people in the institutions in the financial aid offices, who are a very important part of the process. They are not our employees. They are the institutions' employees. The total number may be two or three times that, but there are only 100, roughly, in the ministry.

Mrs. Cunningham: I guess it is the "only" that I am questioning, 100 people to administer 114,000 students, and you still have the help in the institutions. That is processing 1,000 forms each.

Dr. Brzustowski: This is a large-volume operation. Yes, that is the case. I come back to my original statement about the Ministry of Colleges and Universities. Most of the money we get we transfer to effect the ends for which it was given.

Mr. Kleinman: Just to clarify for Mrs. Cunningham's sake, a lot of the assistance that we provide requires servicing over a much longer period of time than any particular year when the student was studying. For example, a loan may require servicing for four, five, six, up to seven or eight years for someone in a PhD program. In effect, the 114,000 awards in any one year do not represent the entire workload.

In addition, there is the cumulative effect of all the loans still outstanding that are being serviced or repaid. For example, there is about \$250 million in Ontario student loans, a portion of which is already paid off but a large portion of which is still in progress. There is an ongoing administrative load, and then there is the combination of activities for any one year of application and processing, and then related information activities as well.

Mrs. Cunningham: Thank you.

Mr. Chairman: Mr. Adams has a supplementary.

Mr. Adams: It is just for clarification. The student award offices in the universities and the colleges surely do not spend all their time doing OSAP work. It seems to me that the students receive support from a wide variety of areas, and these officers perform a general counselling service, advise on other financial matters and so. Is that not the case?

Dr. Brzustowski: There are times of the year when the workload is almost exclusively OSAP.

Mr. Adams: I do accept that.

Mrs. Fawcett: Just back on the fraudulent people, do you question all students or send a letter to the students where it is really suspected that they are blatant?

Dr. Brzustowski: There is a range of responses from the branch from the verification people. When I first met him and was learning about the operations and the activity, Doug was telling me about letters ranging from the courteous inquiry to the snarky demand, with everything in between.

Mrs. Fawcett: I am sure you have to be careful. We all hear the stories of people who buy water beds and so on with their OSAP money, but I am sure you do your best to try to ferret out the ones who are not using it for their education.

Interjection.

Mrs. Fawcett: Three, right. I just wonder how you handled that, whether you can let everyone know that you suspect or whether or not you just have to go for the ones you are really going to pursue.

Mr. Anderson: We can only deal with the actual students themselves, particularly when we get calls, perhaps from a landlord who knows, in his mind, that the student has been abusing the funding provided by us. Let us say he did abuse it. We still do not tell the landlord, particularly now that there is the Freedom of Information and Protection of Privacy Act. It is a matter entirely between us and the student.

Dr. Brzustowski: The whole area of reassessment which Doug referred to is the outcome of those contents.

Mrs. Fawcett: Right. Thank you.

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Mr. Chairman: Are there any further questions? I think we have already, from the very outset, moved into section 2, that I would call prevention of overpayments through the strengthening and verification of the student information.

If anyone has any questions on any part of the report, feel free to ask. Seeing no one with questions, I have a question. I guess the question I have is that, in using the 70 per cent formula on the market value of the parents' home, do you not feel that may, in some ways, discriminate against working class, immigrant students, many of whom have located in the Dovercourt area of Metropolitan Toronto and where, by accident, the real estate values have escalated astronomically as compared to real estate values in the rest of the province?

Is there any consideration taken of the fact that while the persons may have a home which is worth \$300,000, they are in fact still working as bricklayers and as truck drivers, and that they bought those homes when they were only worth \$17,000 when they first immigrated to the country? How do you deal with that fact?

Dr. Brzustowski: We are very sensitive to that. Some of our discussions of this in the ministry were taking place at the same time that market value assessment was being debated in the city. The attempt is made to be flexible and give individual consideration in cases that are appealed.

There is some indication in my remarks that we are trying to be a little more precise about this and, again, I think Rick would be the best person to answer in terms of the current thinking. But we are aware of the problem. We are sensitive to that. It has been brought to our attention.

Mr. Kleiman: I think that there are two things that have to be borne in mind in the processing cycle for the Ontario student assistance program.

One is that the initial processing pattern identifies a systematic and uniform application of approved policies, guidelines, regulations and so on.

There then is a process of reconsideration, where there is variation, an appeals process, in effect, although appeal may be a strong word in this case because it is not a formal appeal in comparison to other comparable programs. But it is a review process, if you will, that allows individual variations to come out in that situation.

The question that is used as a measuring device really in all of these cases is, would the student be able to attend school without this assistance? We constantly remind ourselves of our first objective, which is to assist students who would not otherwise be able to go.

For example, Mr. Chairman, in the example that you gave, that is a good example in a highly inflationary real estate environment where, although there may have been some considerable improvement in the income of the family, in fact the expected contribution for the dependant towards education from income is relatively modest. But the expected contribution from the high net worth of the principal residence is what, in effect, knocks the student out of contention for assistance.

That is a contentious and important issue that we are focusing on. We are focusing on it in two ways. First, there is a high degree of variation in the reporting of the values of residences which, as you can appreciate, is a difficult matter at the best of times in an inflationary market. I was listening the other day, and it was quoted in Metropolitan Toronto, it is approximately four per cent a month.

It is rather difficult to do, but in any case we are attempting now as a first step to devise a method to assess accurately that market value with a fair degree of accuracy in any region. From that point we can then, when we have accurate figures, look to more systematically recognize where the family is not in a position to convert that net worth to money in their pocket to assist with education, because obviously the cost of refinancing their mortgage, for example, would produce prohibitively high payments.

In effect, it is an asset they cannot liquidate, so it is an asset that would not be available to that family in that case. We are trying to devise a way of measuring that balance.

Mr. Chairman: Surely with the market values escalating so greatly, particularly in Metro Toronto, you must be just flooded with appeals.

Mr. Kleiman: No, because though the increase in wages has not been as inflationary as the increase in the value of houses, wages have gone up considerably. Obviously, people would not be able to afford mortgages on \$300,000 homes if they did not have the income to make the payments or the assets from a previous home to reduce the cost of it.

As you can see, it is a rather complex process, but we are trying to focus in on it. The answer to your question, Mr. Chairman, is that we are not flooded. We do have a number of appeals specifically on that house value question, but it is a modest number,

Mr. Chairman: I guess one gets the constant complaint that the students who show the initiative of going to work the year before, rather than

going right through and mounting up real, large debts, are the ones who are penalized. The person who goes out and teaches for a year and then goes back to school the next year, rather than going right through to get his or her master's degree, suddenly finds he does not have the same advantage as somebody who simply runs up the debts through OSAP grants and then pays them off later. Do you have any comment on that?

Dr. Brzustowski: Can I chime in on this one? Out of \$400 million of support, grants were something on the order of \$100 million, so three quarters of it would be loan support. The people who in fact receive the loans graduate with a debt, as distinct from those who have earned the money in advance and graduated with no debt. There is that difference at the level of outcome, but on the grant side, that perception is supported by facts. Yes, that is true.

Miss Martel: I want to take a look at some of the verification procedures you have in place or you would like to put into place, based on the comments you made in responding to the auditor's report.

First, I want to look at the question of now looking at the student incomes or verifying this with Revenue Canada. You mentioned that it looks as if it is going to be an effective way of checking what the income really was.

How many more people do you need to do that? What would the cost be? Is it cost-effective, in your own mind, for what you are getting back in terms of adequate information?

Dr. Brzustowski: I can handle some of this first, then pass it on to Mr. Anderson. First, just to make sure we do not leave a false impression, any time we use Revenue Canada data, the permission of the person has been given in writing on the application form. So that is clear.

The other point I want to make about that is that, given the timing, the filing of income tax returns at the end of April for the previous year and that data becoming available only in the following fall, there is a limit to how much improvement we can get on that basis because of the discrepancy between the calendar year and the academic year. There is even a theoretical limit to improvement, but I will invite Doug to be specific about that.

Mr. Anderson: We will probably be able to increase the number of reassessments but, at the present, we are trying to work out just what the value is. The deputy mentioned that it is rather labour-intensive, and that is because a student can have received assistance for two academic years, which is actually covered by one taxation year. We then have to find out what the split of the income is by quarters or four-monthly periods.

It takes a great deal of time. We have a listing which indicates that some 46 per cent of independent students have an income variance of over \$1,000. Let me first explain that that income variance is largely of our devising. It is an apples-and-oranges situation. We have taken what information we believe to be true and made an assumption from that, and then compared it to the figures provided through Revenue Canada. Even if someone had a variance of \$2,000, it may be when we examine the facts that this \$2,000 is not applicable to OSAP, but it is going to take us time to find out just what the return is.

For example, one variance is \$60,000. I have a suspicion that there is going to be a logical explanation for that. At least I hope so.

Miss Martel: Based on the pilot project that you did in this regard, does it seem to you to be worth pursuing, or do you have any sense yet of how effective it is going to prove to be?

Mr. Anderson: I would say it is going to be worth pursuing. We operate on a declining return basis. How far down we are going to go before we start to run out of return, I do not know. We have not quite got a finger on that.

Miss Martel: Are you assessing dependants as well? I notice that you talked about independent students and the discrepancies there.

Mr. Anderson: This year we have those as well. .

Miss Martel: Just one more in that regard. In terms of the responses to the ministry, I notice you had talked about or were looking into the feasibility of establishing automated systems, both to check homes and also to check cars. I am wondering how much further ahead you are in that regard.

Mr. Anderson: As far as the house asset, real estate, is concerned, we did try a pilot project last year with a commercial company. I cannot remember if was \$7 or \$9 it cost us for each query, and we were not completely satisfied with the material we received. We have also gone to the Ministry of Revenue and I cannot remember what the acronym is for its program, Oasys or something like that, the Ontario assessment system, to see if it could provide the database for us. It is overly complex.

Our best bet right now, I think, is from the Canadian Real Estate Association. It is nonspecific information, but it relates to areas. They are willing to provide, at a modest cost, copies of their statistical tapes to us, which we would then have to convert to accommodate our program. We just have to work out what the cost of that would be.

Miss Martel: In terms of the Ministry of Transportation, I notice you have stated you were going to have some discussions with it about the feasibility of an automated system there to check ownership.

Mr. Anderson: The first concern there was whether we could get access to the information, because since legislation on freedom of information and protection of privacy came in, there is a section in that act which will permit us access. We have sent a letter to the ministry and I have spoken to someone there. It is a question of their trying to advise us as to what information they would require to best be specific to our needs.

Mr. Kleiman: I just might add, for Miss Martel's information, though all verification activities are run on a cost-benefit, and quite a strict cost-benefit basis, we have to bear in mind that there is a deterrent effect as well. Verification activity has two benefits in terms of program control. One is recovery of funds, but the other is sending a very clear message that for those students who are quibbling a bit around the figures, the expectation is that there be a fairly high degree of accuracy. I think that is a message we want to send, not in a heavy-handed way, but that is a perception we want to foster.

The Vice-Chairman: I would like to kindly remind the committee that the committee has been served with a notice that we did agree to entertain for a period not to exceed or surpass a half-hour, and also to remind the committee further that we have two private member's bills that need addressing before 12 o'clock, so time is becoming of the essence indeed.

Since we are pretty well all over the map on this subject matter, are there any concluding comments or questions that you wish to direct at our guests?

Miss Martel: Before you get there, I do have a question about the default and the collection of that. I guess my question is, in looking at the figures so far, we have \$3 million of the \$26 million written off as uncollectable, so I guess that leaves about \$23 million somewhere out there. I am wondering what your sense is of the likelihood that yourselves or the Ministry of Government Services is going to be able to collect any of that.

Mr. Kleiman: Pretty positive, I would say. We are generally very patient. Students find themselves in a variety of awkward situations from time to time after they have completed their studies, or some kind of family events change their lives, so we are relatively patient in dealing with the huge variety of living circumstances we encounter that affect people's ability to repay. I am optimistic.

Miss Martel: When does the collection leave your offices and go to MGS? At what point? Do you do two letters and then, if you get no response, send it to them?

Mr. Anderson: With the loan defaults, the first thing we attempt to do is to confirm that it is in fact a default. Quite often, it is carelessness. The students move and the banks, naturally, are not going to spend a lot of their money trying to track a student down when they already have our guarantee sitting in their pocket. If we track the student down, we then try to convince him to have his loan re-instated at the bank. If that does not work, it is then transferred straight to central collections.

Mr. Smith: I do not know how to ask this so you can answer it appropriately, but in this \$3 million that you have said you have written off do you find a particular class of people? Is it any one particular class of people who have defaulted? Is it right across the board as to people, some of whom you cannot catch up with, some of them maybe are definitely very poor or have had circumstances they cannot cope with, such as accidents or something along that line? Can you generalize as to the groups that most default or is there any particular group?

Mr. Kleiman: It is very difficult to generalize. One thread that runs through it is that you find a lot of people who have had very severe illnesses. That is quite common. Beyond that, it is a real variety of human experience.

Mr. Smith: In those cases, it is more or less on a compassionate basis? You feel that you have to ignore it and just drop it?

Mr. Kleiman: If a person is quite clearly unable to pay off that debt.

Mr. Smith: And you follow them up closely enough that you really do know that is legitimate?

Mr. Kleiman: A write-off of a student debt takes place after a fairly long period of time--we are talking about years rather than months--and after a variety of attempts to accommodate the person's ability to repay even modest sums, but it is when it is very clear that the person cannot handle it at all. That would be the point.

Mrs. Cunningham: Just perhaps on one's own attitude towards the students' assets--car ownership--when students are applying for loans, what is allowed and what is questioned? I think it is a very controversial area. I think taxpayers are shocked at providing loans to people who are driving and own their own cars or who are even operating parents' cars.

Mr. Anderson: We ask for a declaration of anything over \$1,000 in value. You have to remember that for many of the students who are operating cars, particularly in community colleges in outlying areas, that is their mode of transport. It is not like Toronto where you have great TTC service.

Mrs. Cunningham: Between their home or their place of residence and the college?

Mr. Anderson: It could be either.

Mr. Kleiman: I think the question we always try to ask is whether it is something the student requires in order to do his schooling. Obviously, if it is something that is a luxury of some sort, that is not the business we are in.

Mrs. Cunningham: As a parent under pressure to allow the car to be taken away to university, I assure you that most of them are able to get to school some way without a car. From the public's point of view, I think that is a very important area to be looking at and I think I heard you say that you are. Good.

Mr. Kleiman: I can also predict with a high degree of certainty that it will be a very controversial move, if and when we make it, because the automobile, as you know, represents more than transportation; it represents independence and several other intangibles that strike to the heart of youthful independence.

1120

Mrs. Cunningham: Just to put things into perspective, a single mother looking for assistance is many times not allowed to own a car, when we are looking at the kind of support she is eligible for. That would be one criterion that would be a definite no-no, and that is usually a mother with young children. You have to really be able to prove you need a car before you get assistance, just to put things into perspective.

Mr. Archer: We, as an office, recognize the difficulty of administering this program, to kind of strike a balance between being too tough and too lenient. From an audit standpoint, we are quite satisfied with the additional measures the ministry has indicated it is taking. In summary, we feel our comments have been adequately addressed.

The Vice-Chairman: I would like to thank the people for their insight into what is perhaps a complex problem. There is a degree of certainly not envy in the essential service being provided, but it is a complex and

ambiguous issue at times. Generally speaking, I think it is the consensus of all that the monitoring compliance has to be done judiciously and very closely. Generally, there is satisfaction in what is a can of worms extraordinaire, since the common denominators keep changing on a monthly basis nowadays. Thank you again for your time.

May I have the attention of the committee

Mr. Carrothers: Order.

The Vice-Chairman: Thank you, Doug. Thank you for joining us, Mr. Ballinger.

Mr. Ballinger: It is a pleasure, Mr. Vice-Chairman. You can be replaced, you know.

The Vice-Chairman: You will recall that last week the committee was served with a notice of intent of motion, so I give the floor to Mr. Runciman. How long will you be? Three, four, five, 10 minutes?

Mr. Runciman: I think at the most.

The Vice-Chairman: I again remind the members of the committee that House duty will be calling with a passion and a vengeance on two private members' bills this morning, so perhaps we could possibly adjourn by 11:50.

COMMUNITY SAFETY

Mr. Runciman: I want to say at the outset that when this does come to a vote I am requesting a recorded vote.

Initially, I should outline the intent of the motion. What I would like to see the auditor do is go in and look at the process whereby individuals on Lieutenant Governor's warrants are allowed out into the community and how their time within that community is monitored.

I am not suggesting that psychiatric assessments be included in that audit. I think it would be inappropriate, if not impossible, that we ask the auditor to go in and second-guess judgements made by professionals. But I do believe it is very appropriate indeed that the auditor take a look at the decision-making process itself: how the boards go about reaching a decision, the makeup of the boards, the membership, whether it is staggered, the qualifications of the representatives serving on those boards, etc.

Beyond that, I think we should also be taking a look at the monitoring of the individuals in the community once the warrant is loosened. There are other things such as the questions that arise about underbudgeting, understaffing and other inadequacies that might be experienced by hospitals which have been given this significant responsibility. When we talk about warrants being monitored, I had a situation in my riding where I got a letter from a parent a few years ago who was very upset about restrictions on her son's ability to move about the community being removed by the administrator of the local psychiatric hospital.

I phoned the administrator and was advised that the chap was someone who two years previously had shot to death a police officer in Ottawa. He felt, in the view of this administrator, that public safety should be of paramount

importance. When that individual was in the community, every minute he was in that community he wanted to know where he was. He had deviated from a set-down schedule on one occasion and he had immediately removed his privileges. He felt that was the appropriate thing to do when dealing with the question of public safety. I completely agreed with his decision and wrote to the parents along those lines.

We have had a number of situations, certainly in my community, that have raised a number of concerns. This is not a partisan issue on my behalf and Mrs. Cunningham is here to speak to this as well. I have a forensic facility in my riding. There are some very real concerns out there about not just the London incident but the number of incidents over the past few years. Of course, Mrs. Cunningham will be speaking to the very serious incident in London which was a particularly vicious and outrageous crime.

I hope this does not become a party line kind of thing. I saw the whip in here earlier speaking to Mr. Ballinger and I hope we are not going to see that sort of thing. I think it would be truly regrettable and would quite clearly put the lie to the Premier's comments in the House the other day in response to a question I put to him on this matter.

Gradual release programs always present some risk. The risk can be minimized but never eliminated. As I said, there has been a series of dubious decisions in the forensic system. London is one where the system obviously failed, resulting in grave danger to the public. I mentioned a number of things in terms of concerns about underbudgeting, understaffing, etc.

We all took the trip to Washington. I went down with the standing committee on government agencies and most of you went down with this committee. We met with basically the same individuals and committees and we saw the role of the General Accounting Office in Washington. I think most of us found that very appealing and very effective in terms of the job they do on behalf of the Congress and the elected representatives. I think this is the sort of thing we can be requesting the auditor to do on our behalf, on behalf of the assembly and the people of Ontario.

This is a very serious matter. The Solicitor General (Mrs. Smith) has herself publicly called for an inquiry and was rejected out of hand by Justice Callon, the chairman of the Lieutenant Governor's Board of Review. He said, "You simply do not have any business coming in here and looking at the system." That, to me, was very offensive. What Justice Callon is saying is this is a closed shop and the people with vested interests are the only people who can take an adequate look at this situation. I think that should be of concern to all of us. I will leave it at that point. I would like to respond after others have commented.

1130

Mr. Chairman: Mr. Runciman, you have spoken to your motion, but you have not moved it. I am going to ask you to now move your motion.

Mr. Runciman moves that the standing committee on public accounts request the Provincial Auditor to carry out an audit of the day pass approval process for forensic patients in the province's psychiatric hospitals.

The motion has been duly moved. I have looked at the motion and regard that it is in order. Therefore, it is now open to debate and discussion.

Mrs. Cunningham: I do not know strategically at what point I should speak or can I jump in later on in this committee?

Mr. Chairman: If you wish. Does any other member wish to speak?

Miss Martel: Perhaps I can just ask some questions and ask Mr. Runciman to clarify. I am a little concerned at how this becomes the domain of the auditor in terms of what kind of value for money you are looking at in this process. Is it not more a question of what the public policy is in this regard or the policy as set down by the government or those issuing the warrants, rather than something the auditor can look at in terms of cost-effectiveness? I would like some clarification on that point, please.

Mr. Chairman: Do you want to direct that over to Mr. Runciman and to the auditor?

Miss Martel: OK. Actually, that would help.

Mr. Runciman: I am not suggesting that we go in and take a look at the policy in respect to release. As I said in my opening comments, I think gradual release programs always have some risk associated with them. I am not suggesting the auditor take a look at the policy; I am suggesting he take a look at the mechanics of this thing, and setting aside obviously the assessments and judgments that are made by the professionals in the hospital setting and the recommendations that go to the review board. I am really talking about the process: how they decide the makeup of the boards, the decision-making process, the monitoring of these individuals once their warrants are loosened and they are out in the community.

In London, for example, we had people driving around in a car; no one knew where they were, what hour of the evening and what was going on. We have had situations in my own community where a man out on a day pass system was breaking into one woman's home on three separate occasions, stealing her underwear. This was an individual who was in because of sex-related crimes. He was going into a woman's home stealing her underwear, and the last time he stole several butcher knives. He was working with a very young teen-aged girl in the community. She knew nothing about him. They finally caught him before something more serious happened.

We have had a number of those kinds of incidents. In Brockville, we had a situation where a man who two years ago murdered two children was given a pass key for a ward that contained a day care centre. There is a whole series of dubious decisions being made throughout this whole forensic process. I think there are questions that need to be answered and need to be publicly aired.

Mr. Chairman: Just for clarification then, if I can understand what your motion is from a public accounts point of view, what you are saying is whether the policy is right or wrong is not the role of this committee, but within the confines of the role of this committee the kinds of questions you would want the auditor to look at are: Are there specific policies regarding the monitoring, are those policies being carried out and are they being followed by the people who are responsible for carrying out those, which do fall under an auditing rather than a policy sort of issue.

Mr. Runciman: There are four or five forensic hospitals, I think, in the province. I think we certainly want to see if there are consistent rules and if they are being applied consistently right across the system, that sort of thing.

Mr. Chairman: Before going back to Miss Martel, who has the floor, Mr. Archer, do you wish to comment? Do you see this as an audit process?

Mr. Archer: Just to comment specifically on Miss Martel's comment, we would not look upon this as a value-for-money audit. It would be more the traditional compliance audit just to see whether, as the chairman indicated, there are procedures, whether the procedures appear to be adequate and whether they are following those. It is certainly something that we do regularly in most of our audits.

Miss Martel: One further question, please. Bob, I am just curious; have you tried any other channels in terms of having this study done, either through the office of the Solicitor General or--

Mr. Runciman: The Solicitor General herself has called for a study and been rejected by Justice Callon, the chairman of the Lieutenant Governor's Board of Review. In questions that I have posed in the House and I think our Health critic has as well, the minister has indicated that there is an internal study under way, I think in terms of officials at the St. Thomas hospital and I think the review board under Mr. Justice Callon is also taking a look at it.

I have been concerned about that because, in essence, these are people with vested interests. These are people who are indeed making the decisions not only on release but on monitoring those individuals in the community. I think there should be an outside look at what is happening within the system, an objective look, and someone who does not have a vested interest.

Mr. Offer: I have, apart from the statement, just a couple of questions. The first one I think is to Mr. Archer. You would be looking at whether the procedures appear to be adequate. With respect to process and with respect to the process which is undertaken, which is indeed a psychiatric assessment, what would you be looking at in terms of adequacy? Surely you would not be looking into the adequacy of the psychiatric assessment, but would you be looking into the process whereby the psychiatric assessment is valued or evaluated?

Mr. Chairman: That would not be an auditing question.

Mr. Offer: No, I have asked the question, Mr. Chairman, with respect to Mr. Archer. I would like to get his response.

Mr. Archer: Our audit would not attempt to look at that at all. I think Mr. Runciman, in his remarks, specifically excluded that from what he would like to be done.

No, we would be just looking at the mechanics, the specific steps and the procedures to consider a person for some kind of a warrant or a day pass or whatever the program is called. Are there any conditions attached to that particular pass or warrant; are these conditions being monitored in any way; and what action is taken if there is some deviation from the terms and conditions? It would be just the mechanical process of administering the day pass or warrant program.

Mr. Offer: My next question, Mr. Runciman, has to do with some of the comments you have made with respect to the vested interest of Mr. Justice Callon. I think that is what you said. How do you come to grips with the fact that the warrant procedure and the whole process, although in its final form it falls under the Lieutenant Governor, is set up under the Criminal Code, which is a federal matter?

Mr. Runciman: I think if that is going to be a complication, it is something the auditor can certainly get back to us on in short order. I personally do not think it will be a complication. We are talking about provincial facilities; we are talking about provincial appointees to review boards; and we are talking about administrators of provincial facilities who are monitoring these individuals when they are out in the community.

I do not see that as a problem, but what I am suggesting is that, if this committee feels it is appropriate for the auditor to go in and do an audit of this process, he may find there are jurisdictional problems and he will report back to the committee. If that is the case, we are going to have to reassess it, but in my view at this point, I do not think there would be a jurisdictional problem.

Mr. Chairman: That was an issue I looked at in judging whether the motion was in order or not.

Mr. Offer: Just as a follow-up to Mr. Runciman with respect to the very clear jurisdictional difference in terms of process, in terms of appointment to the board, which all falls under the federal government--

Mr. Runciman: That is not correct.

Mr. Offer: It is certainly found under the Criminal Code when it talks about appointment of the board of review. It is under section 547.

Apart from all that, which is clearly federal jurisdiction, I just question whether it is not most appropriate that this be reviewed by that level of government which has jurisdiction under that particular legislation. I would like to get your sense of that.

1140

Mr. Runciman: I am suggesting that is what this will be. On the appointments to the review board, I am not familiar with the total structure of the review board, but I am familiar with the eastern Ontario board, and they are all provincial appointees. My father was the chairman of the review board for over 14 years in eastern Ontario. I know the appointments to the review board come through the Minister of Health, so to suggest that they are federal appointees is inaccurate.

Mr. Offer: Except that the power in which the appointments are initially found is under the federal legislation.

Mr. Runciman: Maybe. We can argue this point all day.

Mr. Offer: I am just asking for a clarification, because I think it is an extremely important motion which you have brought forward and I think it is extremely important that we, as a committee, in dealing with the motion, do not absent ourselves from a very clear jurisdictional problem. I know we have

done this in other times and other places. It is a piece of federal legislation, and I am not commenting on the appropriateness of your motion, but I am saying it might be more appropriate in the federal sphere.

Mr. Runciman: What I have said is that if this committee feels this is important enough to ask the auditor to look look at it, and if the auditor finds jurisdictional problems, he will very quickly come back to this committee and tell us that is the case, rather than our spending an hour debating it today.

Mr. Chairman: I discussed this with the auditor. He may wish to address it with you. I do not think he finds a jurisdictional problem.

Mr. Archer: I do not see one, starting out. I must say I have not researched the area to any extent, so there may well be a jurisdictional problem, which Mr. Runciman mentioned we will encounter very quickly, and we would report back to the committee.

Mr. Chairman: Mr. Adams.

Mr. Adams: Since I put my name down, the points have been addressed. I was simply going to re-emphasize your ruling that it is extremely important for a committee like this to remain within its jurisdiction. If the committee wanders, it affects the future credibility of the committee. By the way, I suspect if it does, it also affects the credibility of a particular issue. That has been addressed. I think we are dealing with the jurisdiction of this committee, and that is all.

Mrs. Cunningham: Just to get down to the issue here and the frustration of the family and the community, specifically in London, this little girl was waiting outside around six or seven o'clock at night for a bus, and she was literally kidnapped from the bus stop by two people, who took her to a place and sexually assaulted her and in fact left her for dead.

Her face is undergoing reconstruction right now. Whether this nice little girl who was going home from school will ever be the same or can ever go back to school and see her friends, who are all concerned about her and who have not seen her yet, could be a possibility. One will never know how she is going to come out of it. It could be our daughters.

The letter I have in front of me is one of hundreds. I think the timing for the motion has never been more prevalent. It says:

"It was with horror that I read in the newspaper"--and the word is "horror"--"of the attack on a 14-year-old London girl by two patients of St. Thomas Psychiatric Hospital.

"As the mother of three teen-age girls, I was horrified to learn that people who had committed dreadful acts of violence, who had been declared insane, should then be let out on to the streets."

She goes on to say some rather interesting things and she shows some empathy for people in psychiatric hospitals.

I think the point here is that we have to do whatever we can to let the public know that there is something that can happen because of this. They need our help. We have tried everything, my colleague and I. The city council asked

that the passes be suspended immediately until someone looked into it. That was not possible. The Solicitor General asked for some assistance and she was denied some assistance.

Now we have taken the only other route. This is a provincial hospital. These are things that are happening in our own municipalities, and we represent these people. Today we have taken the only other route. I really hope this committee will look at this recommendation and support it.

We saw what happened in a previous presentation today because of an audit. They were looking there at processes, and that is what they will be looking at now. If there is something wrong with the process, I think it is our responsibility to find that out. We have no other way of finding out except by this motion. I see we have no choice.

Mr. Chairman: I do not want to cut you off, but I do have two more people, Mr. Carrothers and Mr. Pouliot.

Mrs. Cunningham: I am finished.

Mr. Chairman: Then I am going to give Mr. Runciman the usual one minute to sum up and then take the vote. OK?

Mr. Ballinger: I just have one question, but I will be very brief.

Mr. Chairman: OK. So we have three.

Mr. Carrothers: Some of what I wanted to say may have already been addressed. If my understanding of this area of the Lieutenant Governor's warrants is correct, the problem lies in the Criminal Code. I do not think there is a day pass. You get a warrant. You are put in the facility under the warrant under criteria set out in the Criminal Code. That warrant gets changed on the recommendation of a committee, which I think is provincially appointed. Again, back to the Criminal Code: the criteria which get used and the wording of the warrant are under that Criminal Code wording, which to my understanding is archaic. It needs changing. There is a difficulty with legal authority here in that you cannot perhaps put on the kinds of restrictions you might want, because the Criminal Code will not allow it. I think the problem here is in the Criminal Code.

I want to ask Bob, if I understand it correctly, he talked about the day pass approval process. Since I do not think there is one, and we are not talking about the approval, because the warrant sets out the conditions, are we looking at the monitoring, really? Is that what you are after?

Mr. Runciman: No. As I understand it, we are looking at what the review board said, the ability to recommend a loosening of the warrant, if you want to call that a day pass or whatever; then it is the administrator's responsibility to monitor that loosening and the individual's time and activities in the community. It is really that whole process I want to take a look at.

Mr. Carrothers: There was a comment about revoking day passes. I do not think there is any way--

Mrs. Cunningham: The people who are writing these letters are referring to them as day passes. The public thinks they are day passes.

Mr. Carrothers: There may be an expectation that there is a legal framework in place that is not there, but the fact that the legal framework is not there relates to the Criminal Code itself, and it would be beyond the capacity of this Legislature to deal with it.

Mrs. Cunningham: Maybe that is part of what would come out of this.

Mr. Carrothers: Maybe what should be addressed is changing that code.

Mrs. Cunningham: That may come out of the investigation.

Mr. Carrothers: I do not even think we need to talk to the auditor to realize that; that has been stated in the past.

Mrs. Cunningham: I think the key there is that that is only one part of this problem. The problem is much greater than the day pass. The problem is the review board, how often they look at things, whether one person was present, whether three people were present, whether there was a recommendation from the administration on this, whether they are reviewed every three months. That is what we do not know. I have been part of those committees, and I know they do get sloppy. I know from time to time their mandate is overextended and I know that sometimes they do not meet as regularly as they should. I think it is our responsibility to find out those questions.

Mr. Pouliot: Very briefly, I have nothing but admiration for the way the motion was worded. I am trying to read between the lines. Mr. Runciman is asking for consistent rules. Are they being complied with? What concerns me is the following two things. It is probably not a precedent, but we are on a strict timetable. We all have a great deal of concern for what has been expressed. We all have a social conscience; therefore, we encounter many cases where we need a forum, a sort of launching pad, an audience. I am just leading into the Provincial Auditor's mandate and terms of reference.

Mr. Archer, when you read this motion, if we were to acquiesce in the request, what exactly could you look at and what would you not do?

Mr. Archer: We would try to take maybe the situation which has brought the motion to light and work backwards. Why were these people out and on what conditions were they out? What decisions were made by whom? In other words, do they have an operating procedure which ends up with people being out under a warrant or a day pass or whatever you want to call it, for, it seems in this case, a very lengthy period of time. We would just see if there is a procedure there, and that at each step in the procedure the proper people were involved and that reasonable decisions seemed to be made.

1150

When it got to the psychiatric assessment part of it, we would not touch that at all. We would just say, "Yes, a psychiatric assessment was made," but we would not attempt to say whether it was reasonable. If it was an administrative decision, we would feel capable of assessing whether that decision was reasonable in the circumstances.

Mr. Chairman: Is that clear?

Mr. Pouliot: Yes, it is quite clear, and I think it answers Bob's question.

Mr. Ballinger: I will be brief.

Mr. Chairman: If you have a supplementary, as long as it is quick--

Mr. Ballinger: I have two points. I certainly want to say to Mr. Runciman, with all due respect, that the reason the whip was here this morning had nothing to do with the fact of what this resolution is. He looked at TV and saw a lot of empty chairs. He said, "My job here is whip of the committee," and he came in and said, "Where is everybody?"

Mr. Carrothers: Because I was late.

Mr. Ballinger: That is what he was doing here this morning.

The only other comment I want to make relates to what Mrs. Cunningham said. I disagree. The point you took was that having the auditor do this is the only process that is available. I disagree with that comment. With reference to Bob's point about the internal report or the investigation that is going on from the minister currently, that they have a vested interest, that may well be, but quite frankly, as a member of this committee, I am willing to wait until that report comes out to see what the investigation of the minister has found, as it relates to both from the hospital and as it relates to Mr. Justice Callan.

Mrs. Cunningham: Could I--

Mr. Chairman: I am going to give Mr. Runciman the last word. If he wishes to relinquish that to Mrs. Cunningham, that is his prerogative.

Mr. Runciman: Mr. Pouliot was trying to read between the lines. I want to assure him that there is no intent other than what is in black and white. I have some very valid concerns, as someone who has a hospital in his riding. Mrs. Cunningham is expressing, I think, very deeply held concerns and expressing the views of many in her community.

It does not look as though we are going to get the government's support on this and I think, as I mentioned, that that is truly regrettable.

We talk about precedents. This committee--I should not say this committee--this government deemed it a precedent to ask the Provincial Auditor to go in and look at the political implications respecting IDEA Corp., which I thought was totally inappropriate. Here we have a public safety question, and they are trying to say it is inappropriate for the auditor to go in and look at it. That upsets me very much, and we are not going to let this issue die. If the Liberal government wants to vote this motion down today, this is just the beginning.

Mr. Chairman: I am prepared to take the vote at this time.

Mr. Runciman has moved that the standing committee on public accounts requests the Provincial Auditor to carry out an audit of the day pass approval process for forensic patients in the province's psychiatric hospitals.

All those in favour will please say "aye."

Mr. Runciman: This is a recorded vote.

Mr. Chairman: You wish a recorded vote? Fine. I will ask the clerk to call one by one the members who are entitled to vote on this committee and take the vote.

Mr. Ballinger: Ring the bells.

Mr. Chairman: Do not do that. Let us take the vote.

The committee divided on Mr. Runciman's motion, which was negatived on the following vote:

Ayes

Cunningham, Runciman.

Nays

Adams, Ballinger, Carrothers, Fawcett, Martel, Offer, Pouliot, Smith.

Ayes 2; nays 8.

The committee adjourned at 11:55 a.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87:
PROVINCIAL AUDITOR'S OPINION EXPLAINED
ORGANIZATION

THURSDAY, MAY 12, 1988



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)
VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)
Ballinger, William G. (Durham-York L)
Carrothers, Douglas A. (Oakville South L)
Dietsch, Michael M. (St. Catharines-Brock L)
Fawcett, Joan M. (Northumberland L)
Martel, Shelley (Sudbury East NDP)
Offer, Steven (Mississauga North L)
Pope, Alan W. (Cochrane South PC)
Runciman, Robert W. (Leeds-Grenville PC)
Smith, David W. (Lambton L)

Substitutions:

Hampton, Howard (Rainy River NDP) for Mr. Pouliot
McClelland, Carman (Brampton North L) for Mr. Dietsch
Miller, Gordon I. (Norfolk L) for Mr. Offer

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

Witnesses:

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor
Siddall, Robert, Audit Manager, Reporting and Standards Branch
Leishman, Ken W., Executive Director, Reporting and Special Audits

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, May 12, 1988

The committee met at 10:14 a.m. in committee room 1.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87

Mr. Chairman: I recognize a quorum. We have three substitutions on the committee today: Mr. Hampton for Mr. Pouliot, Mr. Miller for Mr. Offer, Mr. McClelland for Mr. Dietsch.

The order of business today is section 6.4 of the Provincial Auditor's opinion from the 1987 auditor's report. We will be dealing with that until approximately 11 o'clock or 11:15, then moving on to the approval of the committee's budget for this year and then the motion to attend the 10th annual conference of the Canadian Council of Public Accounts Committees. Then in camera we will hopefully put the finishing touches on our report dealing with the mental health services and the Ontario health insurance plan.

I am going to ask Mr. Archer and his staff to lead off with section 6.4. I know all of you have read it. I found it to be one of the more interesting parts of this report. I am going to ask Mr. Archer to start.

Mr. Archer: Fine. Thank you, Mr. Chairman. Just to refresh your memories, this section was added to the public accounts committee's agenda at our request and we certainly appreciate the committee's attention to it.

There is certainly no doubt that the main focus of our office over the past several years in particular has been value-for-money auditing. However, the increased emphasis on value-for-money auditing has tended to overshadow some of the other audit requirements that are called for by the office under the Audit Act, the piece of legislation that the office operates under.

One of those requirements is very specific and states that the auditor shall express an opinion on the financial statements of the province. We have been annually doing the audit work necessary and expressing an opinion on the financial statements of the province. This particular function goes back many, many years.

The expression of opinion on the financial statements has pretty well been taken for granted as just a job the auditor does and has not really evoked much comment or question. In the private sector, as you all know, auditors also express opinions on the financial statements of the entities they audit. For the most part, their expressions of opinion have not evoked too much comment or question until recently.

Some events out west in particular involving some banks have brought into question what the auditor is doing and really what is meant, what messages are contained in the auditor's expression of opinion on the financial statements.

We anticipated that this concern, which has come up in the last two or three years, particularly in the private sector, may well roll over into the public sector and that the legislators and the public may start to wonder what we, the provincial auditors, mean when we express an opinion on the statements of the province. To try to head that question off, we have for the last two years put a section in our annual report which attempts to explain what we mean when we do express an opinion.

Rob Siddall, who is sitting on my left, is the audit manager in our office. He is basically responsible or directly responsible for the audit work that is necessary and leads to the expression of an opinion on the financial statements of the province. Rob will briefly go through the main messages that are contained in section 6.4 of our 1987 auditor's report and hopefully that will generate some discussion and raise some questions.

Mr. Siddall: I have handed out to you basically the standard auditor's report that has come out of the Canadian Institute of Chartered Accountants handbook, which is basically the report that you see on most attest audit engagements, be they within the private sector or the public sector. This opinion would be the opinion that would show up on Imperial Oil or on the public accounts of Ontario. This opinion really has not changed in Canada over the last 20 or 30 years. As such, it has become to a certain degree a symbol of the work the auditor does. The meaning of some of the words in it have become lost to a certain degree. One of the purposes of the section was to try to bring out some of the implicit and explicit messages that are actually included in that standard report.

1020

One of the problems—and I guess it does come to light in the articles Wendy MacDonald handed out to you—is that the auditors are faced currently with a lot of criticism as to what they actually do. I think some of the comments are justified in the sense that we have not tried to educate the users of financial statements as to what we actually try to do.

Many readers believe the opinion you have in front of you is a guarantee that financial statements do not contain any errors. In fact, every set of financial statements you look at contains errors. The errors occur because of human error in terms of actually trying to do work. Obviously, it is quite easy for someone to make an extension error in looking at an invoice or to make an error in an estimate.

What the auditor tries to do and what management also tries to do is to try to limit the number of errors that are in the financial statements so that the financial statements are still useful to the users for purposes of making decisions. It costs too much money to go back and correct every extension error or to put internal controls in place that would correct every error that could be in the financial statements. What we try to do, at a certain cost, is to determine what level of errors can be in the financial statements without affecting you, the users, in terms of those financial statements.

The other constraint that comes across in terms of doing an audit is the fact that, if you look at public accounts, there are so many transactions involved in public accounts that for us to actually test every single transaction would be prohibitive in cost. What the auditor does when he actually goes out to do his work is to pick a sample of items in the population and try to make inferences on the total population.

Those are the two major factors that affect the amount it costs to do the public accounts of Ontario. I think the purpose today is primarily to try to get from the committee some sort of feedback as to whether we are actually doing what they would expect.

I mentioned that the number we have included as affecting the significance of these financial statements for the province of Ontario is \$60 million, which assumes that there could be errors in aggregate totalling \$60 million in the public accounts of Ontario. We have done that based on our estimates or our guess of what the users would deem material. I guess our best judgement was primarily based on the fact that we look at it as primarily a percentage of gross expenditures. We are saying that is one fifth of one per cent. So we are implying from a percentage standpoint that there is a high degree of accuracy in those financial statements.

When I came up to the province, I had previously worked at Price Waterhouse on major business clients, but I had never been exposed to the numbers that we deal with every day here in the Ontario government. The \$60 million, in terms of an individual number, to me looks huge, beyond comprehension almost, but when I try to compare it back, using a percentage of gross expenditures, it looks to be quite reasonable.

Mr. McClelland: As a visitor on the committee, I find the numbers staggering, as I am sure we all do, but when you put it into perspective as one fifth of one per cent, I suppose that helps somewhat, although it is still mechanically done. When I think in terms of \$60 million as a margin or a tolerance, I understand the context you are seeing it in.

The other thing I wondered if you could comment on, for my education and our general education, is the type of error. I understand it when you talk about extension of posting errors and so on and invoice errors carried forward. It seems to me, at least in my mind, there are types of errors that would be acceptable and other types of errors that are not. I wonder if you could flesh that out a little bit for me and handle some of that, if you will.

Mr. Siddall: That is true. In fact, actually, when we are doing our work there are cutoff errors between revenue from one period to the next period that to me would not be of very much interest to you. Unless they were right at \$60 million, I do not think you would be concerned about a cutoff error of \$1 million in the Ministry of Revenue between March 31 and April 2; you would realize it would be picked up next year.

I think the area the users primarily focus on in terms of errors are the fraudulent errors. When we report as at \$60 million, we are still allowing the consideration of fraudulent errors up to \$60 million, but we are saying that if there were a fraud committed above \$60 million, we should catch that. That does not mean we would not catch errors significantly less than that, or that if there was a fraud of \$1 million, it would not come to our attention. It is just basically a cutoff point.

The \$60 million was chosen because we do look at the financial statements as a whole; so we evaluate errors, regardless of their nature, as a whole in coming up with the \$60 million. It would not mean we would not come to you as a committee or to the Legislature with an error significantly below that, if we felt it was a sensitive error. That is not also to suggest we actually go out and look for fraud clues. That is not what an auditor does.

Mr. McClelland: But if it comes up in the normal course of events of your audit, then obviously you would bring it to the attention of the committee or whomever.

The other question I had was about amounts that are apparently missing. Does that come up from time to time? Is there just no explanation or no accounting for—I have to be careful with my choice of words; I do not want to use terms of art here—money that is hard to trace, if you will? You have it coming into, let us say, a ministry or a program, but there is no good, solid handle on where that money went. Does that come up on a spot from time to time, or again is that a matter of tolerance, a level of tolerance?

Mr. Siddall: From my experience in the public accounts, that has not happened here. I think you are referring to the type of things that sometimes might occur in private organizations. We are blessed in Ontario with a very strong system of central accounts that allows for good reporting.

The other thing is that assets and liabilities that we do recognize are cash equivalent, so that we are dealing with a lot of estimates or unusual transactions. We are blessed to a certain extent in Ontario with good controls.

Mr. McClelland: Certainly. I ask that in the context of the people of the province; ultimately, it is their money and I think they want to know if moneys are allocated for a program and the cheque bounces. That is why I am glad to hear you say that.

I think there is a concern from time to time that money gets lost in the shuffle. That really is what I was addressing, to the extent that your office may from time to time come across that. Thank you. You have addressed that.

Mr. Archer: Just to further comment on that, there is not an awful lot of cold, hard, currency or cash that comes into the Ontario government. It is basically in the form of cheques made payable to the Treasurer of Ontario. To convert those cheques is a little bit of a difficult matter, plus the fact there our mainstreams of funds that come in, from the federal government, for example, OHIP premiums and that sort of thing. As Mr. Siddall says, there are good controls, internal controls on the handling of this inflow of money, and we certainly analyse those. I do not think there is really an opportunity for any major siphoning off or the money going missing, of the type that you are —

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Mr. McClelland: I did not mean that necessarily, sir, in the sense of anybody lining his pockets, if I can say it that crassly. I do not mean it in that sense. I just mean, basically, somehow appropriated to a program or whatever without a tracking system or some handle on where that money goes. I think you have addressed that, but that is a concern the general public has from time time because you are talking about such vast sums of money. When you hear numbers like \$60 million in terms of a tolerance level, you think, "My God, does that mean my money is out there somewhere floating around and we do not know where it is?" That is really what I wanted to get at.

Mr. Chairman: We appreciate your comments. Thank you.

Mr. Siddall: That explains partially the concept of the auditor currently looking at the \$60 million, and that is the total probable errors we expect to be in the system. The actual known errors that we find and ask the

Treasury to adjust, or live with because they are not very large, is well below that \$60 million amount.

Because we are using sampling procedures, if we find two errors in a sample population of 20 items and that represented part of a population of 200,000 items, we have to try to project a certain number of errors and make sure that projection still stays within that \$60 million so that we can give you that confidence that we have referred to of 99 per cent, that we are confident that there is no more than \$60 million on errors in those financial statements.

Mr. Chairman: Maybe I can just ask a supplementary on what Mr. McClelland was dealing with, and that is the potential for money to be lost. Would you agree that there is probably a greater potential in the transfer payments since there is less supervision over them? Since—what is it?—70 to 75 per cent of payments by most provinces go into transfer payments, do you feel an adequate amount of time is being spent by the Provincial Auditor in auditing in that direction rather than in auditing the more on-line ministry expenditures where you have a lot of internal auditing going on?

Mr. Archer: We do not, as you mention, audit to any great extent the accounting systems or financial controls that major recipients of transfer payments have. We do have an inspection audit clause which enables us to go out on a selective basis and look at the accounting records of an individual transfer payment recipient. But their numbers are so large, 200 to 300 hospitals, 20 universities and several hundred municipalities, that it would just be impractical for the Provincial Auditor to go out and look at all of these. So it is true we do not really have a handle on how well the money that is being transferred out is being administered, but I do not know as it is a job for the Provincial Auditor.

I think it is a matter of the ministry or the government getting assurance from other sources. They do on the major recipients, for example, get audited financial statements which give some assurance that the money has been accounted for. But they may want to go further than that, and they maybe should go further than that, and get, say, an internal auditor of a transfer payment recipient or the external auditor of a transfer payment recipient to start making some statements regarding how well the money is being administered or how well the internal control system is working and points of that nature.

Mr. Carrothers: This may take us a little bit beyond what you wanted to talk about, but I have always been curious and wondered what the auditor's opinion might be as to the fact the province does its accounts on a cash basis. We do not have a normal balance sheet. I suppose the province does not normally want to. In a company you may want to see what its liquidation value is. Presumably, a province will never be liquidated so you do not try to find those figures.

I am just wondering if you had any views, since you are talking about your opinions, whether there might be a more appropriate way to account for the provinces, or give an estimate or a statement of the province's financial position, because we are talking here about cash on hand really, or cash that is expected to come in within 30 days and that is it. Then you do a sheet based on that. I wonder if there might be any changes you think might help make it more realistic or if that is the best way.

Mr. Archer: I am a very strong supporter of the cash basis of accounting for governments. To me, that would make sense. That is the way the budget is designed and, to me, the accounts should model the budget and both be on a cash basis. However, there is a strong movement in other provinces and by the Canadian Institute of Chartered Accountants to promote accrual accounting, which is what you were talking about, for governments.

Frankly, I do not see the advantages of it. There are a lot of disadvantages in that it is going to be much more costly to prepare the statements, much more costly to audit them and I do not think it is going to provide any better information to the legislators or to the public than the cash basis we now have in Ontario.

Mr. Carrothers: Looking into revenue flows that might come in in the future, or actually expenditures, because I guess this does not really look at expenditures into the future either.

Mr. Archer: No. The system in Ontario is sort of a modified cash in that they take in the expenditures for the 30 days after the year-end, but it cuts off revenues pretty well at March 31. It is sort of a partial accrual, if you like. Essentially, it is a cash-out, cash-in system. As I say, just to repeat myself, to me, that type of system makes much more sense for government than accrual, the private sector system.

Mr. Chairman: With the cash-in, cash-out system, the usual complaints that MPPs receive are that somehow the government pays its bills late, but they have done studies in different jurisdictions that suggest that the opposite is true: that the government usually has more money being paid either too early or on time than it is collecting on time. I am wondering whether you have any comments on the state of Ontario's cash flow in and out and whether or not there are corrections that need to be made in terms of processing the debit side of moneys owed to the taxpayer or to the government.

Mr. Archer: Perhaps Mr. Leishman can comment on that.

Mr. Leishman: We did, in 1983 I believe it was, an audit of the cash management system at Treasury. At that time, the result of our assessment, our conclusion was that it was adequate. In the case of some suppliers who allow a two per cent discount if the account is paid within 10 days, they were making valid efforts to take advantage of those discounts. The normal terms are net 30 days. They were also making efforts to pay all their accounts within 30 days and, by and large, are successful in that regard.

We will be, no doubt, in the future doing follow-up reviews of that aspect, the cash management of the province, but as of now we have seen nothing resulting from the 1983 audit or from our annual test audits of the financial statements that would indicate to us that cash management is weak in the province.

Mrs. Fawcett: I apologize for being late, Mr. Chairman, and if this question has already been asked, then I can speak afterwards privately. On page 159, you state that testing is used. Could you give me an example of just what this would entail? For instance, what sort of test would you conduct to ascertain that, let us say, there was a discrepancy between the health resources register and a College of Physicians and Surgeons of Ontario data bank, something like that?

Mr. Archer: We do testing in all the phases of our audit, whether it is financial audit or a test audit, a compliance audit or value-for-money auditing. The particular example you use would be more on the value-for-money auditing side. We would not be concerned with that as far as expressing an opinion on the financial statements of the province. I think, Mr. Siddall, you could probably give an example or two of the types of testing you do in doing the work for this particular audit.

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Mr. Siddall: One of the most common types of testing we do, if we look at one of the easier numbers that are included in exhibit 1, is in the area of the balance sheet. In the case of cash or temporary investments—it would be more of a procedure than a test—we would actually send out confirmations to the banks the province deals with, asking them to confirm the balances that were outstanding as of March 31.

We would then proceed from there, once we had that balance confirmed, to look at the internal records prepared by the Ministry of Treasury and Economics and the Ministry of Government Services as to the bank reconciliation, to ensure that the government had actually tried to reconcile its records to what the bank had confirmed for us.

In terms of actually taking a test sample, we would take a sample of some of the outstanding cheques that were listed by the province as being a reconciling item between what the province had on its books and what the bank had on its books. We would take a certain number of cheques, normally greater than a certain dollar value, and actually work on those to make sure that they were outstanding as of the end of March 31 and that they were received back from the bank in cash in the period subsequent to the year-end.

Those would be some examples in cash. Our testing would be different if we looked at expenditures. Our testing would be significantly different from what we would do in cash.

The point that we were making in section 6.4 is that we cannot test every transaction that goes through the books of the Ontario government. But because we are dealing with populations that have a lot of similar characteristics—that is, if one cheque comes through the system, the chances are that the same cheque will be exposed to the same internal control—it would be similar in nature.

We can make a lot of inferences when we are doing our procedures as to what the errors would be in the total population. Without that, we would be forced to look at every transaction and we would be here for a long time.

Mr. Miller: Has the system been charted for the past number of years to indicate if there is an increase or a decrease in the lost expenditures?

Mr. Archer: I did not get the beginning of that.

Mr. Miller: Has this been charted for the last number of years to indicate whether this is increasing or decreasing? What is the trend, or has this just been brought up in this particular report?

Mr. Archer: I guess the question is, are we finding a cleaner product to audit now than we did, say, two, three or four years ago? Is the Treasury or the government getting better in preparing its books?

Mr. Siddall: I am not sure if you could look at it over, necessarily, a two-year or three-year period, but certainly over the last 20 or 30 years, with the invention of computers and using computers, we have been able to correct a lot of the human error that occurs in financial statements.

You can never do a better job of correcting, however, the areas such as estimates where management is trying to estimate a number and then the auditor has to try to come in and evaluate whether that estimate is reasonable or not. That stays constant, but I think in terms of the human error, the one I was referring to earlier on, the extension error, certainly has got better. It has become much cheaper to get more accurate financial statements than what it was, say, 20 years ago in relative terms.

Twenty years ago we had maybe five people re-performing a procedure to make sure that it was done correctly, where now we can have a computer re-perform it for us in a much faster time and at a lower cost. But if the world is getting better in terms of the errors in financial statements, I do not think you are going to see that. Examples are the bank failures out west.

The types of errors or judgement calls that are in financial statements will continue to exist and there will continue to be questions such as whether management or the auditor, or both of them, made the right judgement call on such things as loan provisions or actuarial evaluations of liabilities. Those will continue to persist.

Mr. Miller: To follow up on that, would it be useful to have it charted how we are either improving or not improving to assist in resolving some of the difficulty?

Mr. Siddall: I am not sure—

Mr. Miller: Again, to have an indication. This year you have estimated \$60 million. I think it would be useful to have a guide. Are we bringing it down? That seems like an insignificant figure, but that is a lot of dollars.

Mr. Archer: We have been using that \$60-million materiality figure for some time. As I read your question, I think what you are asking is, is it getting easier for us as auditors to audit to that level of materiality as each year goes by? In other words, is the government doing a better job in maintaining its records?

I think Mr. Siddall was saying that it is pretty hard to tell over a two- or three-year period, but certainly over five or 10 years, I definitely have to answer yes, they are getting better. Part of the reason, as he explained, is that they are much more computerized than they used to be; hence, the potential for human error is less than it used to be.

Mr. Siddall: I can give you an example. I think this refers back to the question of the other member. If we went to an accrual basis of accounting in Ontario, we would bring into the financial statements that you have in front of you now a lot more estimates. There would be a requirement for allowance for doubtful accounts on sales tax, corporate tax and personal tax, receivables that we are not recording as an asset as at March 31.

We cannot tell you that the allowance for doubtful accounts on corporate tax receivables of \$200 million is exactly \$253,000. We can come up with a range of an estimate. We can say that the allowance for doubtful accounts

should be between \$100,000 and \$200,000. Each time we come up with a range like that, we have to take that difference and somehow account for it in terms of that \$60 million. So we cut off a little bit more of the \$60 million that we can use and say we have to allocate it to those areas of judgement and still be able to come up and tell you that, to the best of our knowledge, \$60 million is the maximum amount of error that is in those financial statements.

With the cash basis now, in those financial statements we could lower the materiality to a certain extent without affecting the cost tremendously, but if we got below a certain level, the costs would become prohibitive, even with a cash basis of accounting.

This matter has also been brought up at the federal level with Ken Dye bringing to the public accounts committee his materiality level on the public accounts of Canada. Currently, they are at the same percentage of expenditures as we are. Mr. Redway has suggested they could go higher. They used \$200 million on the public accounts of Ontario, and he is suggesting that the guidelines put out by auditors or accountants currently would allow up to half of one per cent of expenditures, which would translate into closer to—what?—half a trillion?

Mr. Miller: It is coming more clearly. Is some of the cause for this difference economic conditions and that you have to have write-offs?

As an example, under the Ministry of Agriculture and Food, where you have farmers who cannot pay back some of that debt, is that a write-off? Is that included in some of that money?

Mr. Archer: In Ontario you are talking about?

Mr. Miller: Yes, I am talking about Ontario right now.

Interjection: Are these loans set up as assets?

Mr. Archer: That type of expenditure is not set up as an asset. It just goes out as an expenditure.

Mr. Miller: Would that be included in some of that \$60 million?

Mr. Archer: No.

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I wonder if you can answer this question. The cash management initiative, according to the feds, is expected to save \$1.2 billion. Let me put it in as tactful a way as possible. Does that seem reasonable to you? Would we save a proportional amount provincially using that kind of system? Do you have any comments on that? Is the state of the science such that we can make those kinds of assertions at this time?

Mr. Archer: Without knowing the results of Ken Dye's audit— You are talking about what Ken Dye has said at the federal level?

Mr. Chairman: Yes.

Mr. Archer: I understand his entire report on this subject will be in his 1988 annual report, so we will have a better feel for it then.

I am surprised, frankly, at the number. It suggests to me that there are a lot of inefficient cash management practices going on in the federal government. Certainly, from our experience, we would not expect to get similar savings.

Ken, perhaps you could tell us. As a result of the last audit we did, did we find any serious mismanagement of cash such that the province was losing a lot of interest that it might otherwise earn?

Mr. Leishman: No. At that time, we had a few recommendations, but they were minor in nature.

Mr. Chairman: It will be interesting to see his report and find out where he gets— It is a lot of money, if he is correct.

One of the questions I have of you is that one of the Quebec financial managers has suggested that every year the shareholders, namely, the citizens of the province, should receive a statement of tax expenditures and income. Do you feel that we have standardized our measurements enough that citizens would receive an accurate statement? Second, could it be put in a form that would be understandable to the average citizen?

Mr. Archer: I will see if I understand the point. A statement of tax expenditures and income?

Mr. Chairman: Or even the average member of the Legislature. Maybe if we start at the top—

Mr. Archer: Do you mean a statement of government expenditure and government income?

Mr. Chairman: Yes. Where are we as of this year compared to last year?

Mr. Archer: In effect, we get that now. Part of the financial statements of the province is a statement of revenue and expenditure. There is a statement of budgetary revenue and then they give you the budget. They give you the actual and they give you the previous year's actual. Then there is a statement of expenditures, and they give you the budget actual and the previous year's actual.

A quick look at the bottom line there shows that we are spending roughly \$2 billion to \$3 billion more per year than we are taking in in income. We have to get that money by borrowing it from one source or another.

That information is published on a global basis. I do not know if you are suggesting that we get more detailed than this or what.

Mr. Chairman: No. What I am suggesting is, is it possible to produce it in a form that the average citizen would be able to understand? Would it be advisable for each citizen to receive a report in the same way as the shareholders of a company are supposed to receive reports. From some of the reports I have received from time to time, I am not sure I always understand them, but at least in a form that the average citizen could make some kind of reasonable assessment of where his government is going and whether he is richer or poorer than last year. Would it be a good idea for the average citizen to receive something like that? If you feel that is a political question, I will understand.

Mr. Archer: No, it is not a political question.

An individual now, if he reads the public accounts—and they are not sent out automatically to everybody—can tell whether the government or the province is running itself on a balanced basis. Just a look at the revenues and expenditures shows that it is not.

If he wants to go beyond that and see what he is getting for the money that is being spent, I do not know that the balance sheet or the statement of the financial position of the province would tell him exactly how much money had been spent on education and how much on hospitals and this, that and the other thing. He may want more information than is available from the basic financial statement.

I think these statements probably could be drafted. Without changing the information that is in them, we could probably draft them in terminology that is more understandable to the man in the street. Maybe it might be worth while to send them out to selected taxpayers, if you like, to see if results in any feedback, but I certainly hesitate to recommend to the government that it wholesalesly revise its statements and then, automatically, send them out to each taxpayer. I think it would be a gross waste of public money to do that. But doing it on a selected basis, just to find out if the man in the street understands what we are trying to tell him, might be a worthwhile effort.

Mr. Siddall: To add to Mr. Archer's point there, the Ministry of Treasury and Economics does prepare a Treasurer's report on an annual basis. It resembles an annual report for a large corporation. That does include the financial statements as they are summarized in the public accounts of volume 1. It is a much more manageable document for individuals to deal with. It does provide a narrative as to the significant transactions or the significant events that have occurred in that past year, with charts and graphs that are more understandable than sometimes looking at a list of numbers and trying to determine where we actually spent our money. That document does provide, if handed out to the citizen, a good format to start at least going through the process of trying to understand where we stand with the Ontario government.

Mr. Carrothers: I was actually going to make the point about the Treasurer's report. It is sent out—I do not know if you could use the word "selectively" or not—but it is certainly fairly widely dispersed.

I wonder if the way of getting information out might be, instead of mailing it, advertising. I noticed, just as an example, in my region of Halton, in yesterday's paper on the back page was a financial statement of the region.

Mr. Chairman: I think all the regions were published this week.

Mr. Carrothers: It is moderately comprehensible as these things might be. That is a vehicle at least. I suspect other regions do the same thing. Maybe that is a possibility. Of course, to get the full statement, you have to almost take these three pages. It is a fair amount of information, but instead of mailing, something like that would perhaps be less expensive.

Mr. Chairman: I guess where I was coming from was that we were told that the Australian government was able to get the citizens on its side in doing some major cutbacks. There are economic reasons why they might be motivated. To be able to communicate that well and actually have the people go

along with selective cutbacks strikes me that they must have developed a fairly good communication process.

Mr. Carrothers: It must have done an advertising campaign with a message and everything.

Mr. Chairman: It may have been related to getting the unions on their side and having a Labour government doing the cutbacks; that may have been part of it. I gather some of their technologies or methodologies were changed dramatically. They were actually able to do a lot of sunsetting and things like that which other governments would take it in the neck for.

Any further questions? Maybe I can ask the question that Patrick Reid used to ask over and over again when he was in this chair; that is, is there a misuse of special warrants and do you feel that special warrants are on the increase or decrease? Is this a flaw in the accountability system and are there any ways of dealing with it?

Mr. Leishman: I have a few comments. I think special warrants per se, no. We have not found that. But are you referring to the increase in the amount of Management Board orders?

Mr. Chairman: Yes.

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Mr. Leishman: We did comment in our report—I believe it was in our 1985 report—about the use of a Management Board order for funding of the domed stadium, which we felt at the time was not necessary to put through in the form of a Management Board order.

By and large, we have not found anything wrong with Management Board orders. They are increasing over the years as the expenditure of the province is also increasing over the years, but we have not found any illegality or areas where they issued a Management Board order when they should not have issued a Management Board order.

Mr. Chairman: Is there still a controversy concerning how assets are being calculated and valued, particularly with capital assets, buildings and that kind of thing? Do you want to address yourself to that? There are differences among the provinces, are there not, in how valuations are put and how they are subtracted from to arrive at meaningful deficit figures?

Mr. Siddall: Our professional body is looking at this right now. It is at an early stage, but certainly with respect to physical assets, there are major differences between various organizations. Some of them actually are capitalizing them and not depreciating them or charging them to operations over their useful life. Others are doing what we do in Ontario, which is expensing them directly during the year of purchase, and others are just showing disclosure of the total cost of physical assets.

You did state that it would affect the calculation of our deficit if we change our policy, but currently it is at an early stage. I cannot tell you what direction they are heading for, whether they are going to stay with the direction the province has currently or whether they are going to go in another direction.

One of the members brought out the point of trying to determine the net worth of the province of Ontario. What is a reasonable balance sheet and where do we stand at the end of the year in terms of our net worth? That is a tremendous task to try to do for an organization of this size and it would not just include the consideration of physical assets. There are a lot of other assets that were never purchased, such as crown land, that should be valued if we were really to come up with a true net worth for the province.

I personally believe that the statement that is critical to the government is the statement of revenue over expenditures or the budget, which is the front end of that process. What the users desire in terms of information can be met primarily from that statement. Trying to calculate a net worth is again a process that accountants and auditors enjoy because it means more work for us, but I am not sure if it is really going to provide the users with anything beneficial in the long run.

Mr. Chairman: Are you saying to those people who try to argue that we have a higher deficit in Canada than the Americans do that this kind of argument is probably meaningless because each one calculates it differently and therefore you can end up with as many calculations as there are people doing the assessment?

Mr. Siddall: I think that is part of it. I think more important would be the taxing ability of the province in the future. If I were looking at it, I would want to know what percentage of our gross provincial product were being taken up by tax, and what the possibility would be that if we had to raise more revenues, we could do it through increasing taxes in the future?

Again, offsetting that is the consideration of decreasing expenditures, but there certainly is a lot of pressure on governments to continue to spend money so that they provide us with the quality of services that we demand in Ontario.

Mr. Runciman: Ken mentioned Management Board orders and he saw no problem with those in respect to expenditure approvals. I was just curious in that the government in the past two and a half years has gone beyond its budget to the tune of something like \$1.6 billion, expended beyond what it had indicated was going to occur in the budget.

Maybe this goes beyond the role of your office, but I have a private member's resolution with respect to this where, if they are approved by Management Board within 15 days, they come to this committee for its consideration, but not necessarily approval. I think that is going a little too far, but at least members of the Legislature are aware of these expenditures taking place.

In any event, I wondered if you had any comment with respect to that ongoing activity.

Mr. Archer: Ken, you could probably comment on that more directly. Currently, what happens to Management Board orders? Are they not tabled in the Legislature?

Mr. Leishman: No. Currently, they are passed when the Legislature is not sitting. If the Legislature is sitting, they would normally go through as supplementary estimates.

Mr. Runciman: But the money is usually spent by the time we see supplementary estimates.

Mr. Leishman: I would hope not.

Mr. Runciman: We are dealing with estimates now where the money is, in essence, gone.

Mr. Chairman: Unless I have further questions, that leads nicely into—

Mr. Runciman: Obviously, I did not get an answer to my question. I do not think I got an answer to my question. You do not see a problem in terms of what has been happening in the significant expenditures above the budget and the fact that, in my view, there is no real legislative oversight?

Mr. Archer: To the extent that the MBOs would raise the total expenditure of the province over the total of the original budget, I agree that the Legislature does not get involved at all.

This subject was discussed some years ago, both with respect to MBOs and special warrants. At that time, the Legislature was not informed in any way at all. Subsequent to that discussion by the standing committee on public accounts, there is now a standing order of the Legislative Assembly with regard to Management Board orders, which has them printed in the Ontario Gazette, together with explanatory information. There is a similar treatment of special warrants.

At least now they come to light, but it does not go that additional step that you suggested of maybe coming before some committee for some kind of post-approval scrutiny.

Mr. Runciman: Or even consideration for some sort of justification.

Mr. Archer: You mean even before the—

Mr. Runciman: My resolution suggests within 15 days.

Mr. Archer: That would be one step beyond where they are now. Just to repeat, it was not that many years ago—maybe five or 10—when there was nothing. The Legislature was not informed in any way at all.

Mr. Runciman: If there is a concern with respect to that, it is probably more appropriately dealt with by this committee or the standing committee on finance and economic affairs rather than your office. That is what you are suggesting.

Mr. Archer: The scrutiny of Management Board orders?

Mr. Runciman: Overexpenditures, yes.

Mr. Archer: There is nothing illegal about it. The Legislation provides for Management Board orders.

Mr. Runciman: I appreciate that.

Mr. Archer: There is nothing that we as an office could do. I think it is a legislative matter, just like the estimates themselves are a matter for the Legislature and not for the auditor.

Mr. Runciman: You suggested that the public accounts committee dealt with this a number of years ago, but there are still some concerns. Obviously, I have a concern that the appropriate forum is in this committee.

Mr. Carrothers: I am just wondering, in terms of my understanding of the process, would there not be a bit of an opportunity in the estimates process, as imperfect as that appears to be, in that when the minister is dealing with his estimates for the upcoming year, one brings into that process the question or the fact that he had to get Management Board approval for excess expenditures over his budget the previous year. There is some mechanism now, I suppose.

Mr. Runciman: After the fact.

Mr. Carrothers: It would always be after the fact, I guess.

Mr. Runciman: It does not have to be.

Mr. Archer: The public accounts discloses the Management Board and special warrant information.

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Mr. Carrothers: We, as a committee, do not deal with it unless you make a report, but in the estimates I assume the minister could be questioned on the fact that he had to get—

Mr. Archer: I see what you mean.

Mr. Carrothers: We all admit that the process possibly needs improvement, but at least in that process there is a vehicle or a possibility.

Mr. Archer: In other words, you could ask him whether he is low-balling his estimates and is going to come through with more Management Board orders as he did last year.

Mr. Carrothers: It would certainly be a question I would ask if you saw a ministry continually doing that. I mean, "What gives and why is that happening? Are you dressing up your budget so that it looks good going in and then solving your problems six months later and hoping nobody notices?"

Mr. Archer: That is a good point.

Mr. Chairman: Mr. Archer, before we move on to other matters, do you have any concluding remarks you would like to make on this section?

Mr. Archer: Just to comment that one of the benefits we hope to get out of this little discussion is some feeling from the committee about this figure of \$60 million that we have used. We have determined it ourselves and we have gone by professional literature and so on in determining it. But do you as a committee feel comfortable with our auditing to that figure of materiality?

One of the members indicated he was initially quite shocked that there could be errors to the extent of \$60 million in the financial statements of the province. I think, after some discussion, maybe that initial shock has worn off, particularly when you look at that \$60-million figure in relation to the \$30-billion to \$35-billion expenditure figure that is in the statement.

I am really just trying to confirm what I deduce from the discussion, that we should continue to stick with that \$60 million or one fifth of one per cent of the province's expenditures. Should we continue with that as our level of materiality?

In order to lower it significantly, say, if we were to go to \$30 million, instead of \$60 million, that would make a significant increase in required audit time. On the other hand, if we were to double it or triple it and go to \$100 million or \$200 million, we would have some savings in audit time, although the savings would not be as great as the additional cost to lower the figure. I guess I am just asking, is the committee, in effect, saying business as usual as far as materiality is concerned with regard to the province's financial statements?

Mr. Chairman: If nods seem to indicate support for your position, then I guess the nods are indicating a vote to carry on with business as usual. I do not hear any objections.

Mr. Runciman: Elinor Caplan spills that much every week.

Mr. Chairman: I do not know whether you have an empirical way of verifying that.

Mr. Ballinger: The smile on your face and the glow in your heart.

Mr. Chairman: Let the record show there was a smile on Mr. Runciman's face when he made the comment.

Mr. Ballinger: I did not see the glow in his heart, though.

ORGANIZATION

Mr. Chairman: Moving right along, I believe Mr. Runciman has a motion to make. Here is a copy of the motion.

Mr. Runciman moves that the 1988-89 budget of the committee in the amount of \$147,627.90 be accepted and that the chairman present the budget to the Board of Internal Economy for its approval.

It has been moved, and I have a couple of questioners on it.

Mr. Ballinger: My question is not a tough one at all. In going through the budget, trying to relate the dollars to what we are doing and what is proposed, for the last trip, what are the total dollars related to that? I tried to figure it out here, but I tell you I could not figure it out.

Mr. Chairman: We can get that through our clerk. Doug, do you have the figures on the cost of that?

Mr. Ballinger: The \$35,000 or \$40,000.

Clerk of the Committee: I do not have the final figures stamped, nor do I have the last bunch that we submitted here. This is—

Interjections.

Mr. Chairman: Can we have one person at a time, please? The clerk is trying to give you an update.

Clerk of the Committee: The most recent statement I received from the finance branch two days ago does not yet incorporate all of the travel costs associated with our trip to Ottawa and Washington. And that is up—

Mr. Ballinger: I am speaking about the last proposed trip, not the last trip we have taken.

Mr. Chairman: Do we have reasonable estimates? Is that what you are asking?

Mr. Ballinger: Yes. I am trying to correlate these figures and cannot because it includes sort of a package deal. Have you any idea, a rough estimate, of what the proposed last trip is going to cost?

Mr. Smith: About \$73,000.

Clerk of the Committee: Have I added these amounts? No, I have not.

Mr. Chairman: One of the constant variables is that, unless you know exactly which members are on the committee and their travel costs into Toronto, which occupies a major portion of the budget, then it is very difficult. You simply have to make a ball-park guess based on past experience and the assumption that there will be some northern members who are going to travel farther than the rest of us and, therefore, have higher hotel bills and travel costs.

Mr. Runciman: Mr. Carrothers and I probably will not be able to join you on this, but I would still like to know—I was absent from the meeting, apparently, when this was discussed in terms of the details—if you could just give me a thumbnail sketch of what is going to occur in the London-Bonn-Stockholm visits?

Mr. Chairman: Essentially, what we intend to do is to plan the details of the trip after meeting with our colleagues from Ottawa and after we have obtained the copy of their report, which I believe has just been published last week. Was it last week or is it this week that it is coming forward?

Ms. MacDonald: It is not yet out. The one last week was the estimates one.

Mr. Chairman: It is not yet out, but it is supposed to be this week or in the very near future.

What we have had is a verbal description from both Mr. Redway and Miss Nicholson concerning the value of those particular cities and the processes which they feel have some relevance to the Ottawa scene, which is so much closer to us than any of the other provinces are.

It was on their recommendation that they thought we should go and have a look for ourselves after we have had an opportunity to read the report, because they seem to think they will be making some changes in their system as a result, particularly, I think, of their visit to Bonn.

Mr. Carrothers: I just wondered, since I am virtually certain I will not be able to go, if the committee will be briefing those of us who do not go who regularly sit on the committee?

Mr. Chairman: There is always a report written at the end of each trip with a summary of what has gone on and, of course, recommendations come out of the trip and they will have to be discussed in the committee and the committee will either approve or disapprove of any recommendations that any of the members may wish to put forward as a result of it.

By passing this budget, we are not necessarily saying these things will take place on the particular schedule. We passed the schedule last week or the week before, and it is a proposed schedule. It could, in fact, be delayed at some point in time or put forward, depending on what is going on around this place.

Mr. Carrothers: In other words, you are saying that we probably might make it.

Mr. Chairman: I am saying there are ways in which wonderful things happen to people who offer constructive proposals to the committee.

Mr. Ballinger: Let me ask one more question, Mr. Chairman. If we adopt the resolution, are we going to have an opportunity to discuss this? I think you know where I am coming from philosophically. I have expressed this in the committee before. Is this finite? If this is approved by the Board of Internal Economy, is that a must or will we have some opportunity to discuss this in more detail?

Mr. Chairman: The more detailed proposals would come from the steering committee to the committee and then it would be ratified by the committee.

Mr. Ballinger: I am willing to wait until that time.

Mr. Smith: Could I ask when we leave from Toronto?

Mr. Chairman: We handed out a schedule last week and we will be happy to give you a copy of the schedule. The schedule was approved, subject of course to the House leaders agreeing with it.

Mr. Runciman has moved the proposed budget for 1988-89 that I will be presenting to the Board of Internal Economy.

Motion agreed to.

Mr. Chairman: Mr. Ballinger moves that the standing committee on public accounts attend the 10th annual conference of the Canadian Council of Public Accounts Committees in Halifax, Nova Scotia, in July 1988, and that the chairman and the committee clerk be directed to make travel arrangements, subject to the budgetary approval of the Board of Internal Economy.

Mr. Carrothers: I had a question, Mr. Chairman, particularly on trips like this. Maybe it is up to the clerk as to how travel arrangements get made. At this point we know I think that 11 members will be going to this convention. We may not know which members or who will be going and there are a number of ways of making arrangements which can reduce fares if made in advance.

I am just wondering if those methods are taken. If you do buy 11 tickets and if you buy them now for next July, you are going to get one kind of price. If you buy them the week before you go when you know who is going, you are going to get another price.

Clerk of the Committee: That is right.

Mr. Carrothers: Do you buy ahead?

Clerk of the Committee: When conditions are quite certain and I am directed by the committee chairman to do that, then I do, to get maximum savings possible. In fact, the amounts requested in the budget submitted to the Board of Internal Economy, we hope will be significantly underspent when it comes to that.

At this time, there may be some uncertainty as to when the House will be ending and then whether the Board of Internal Economy would approve a full committee travelling or a subcommittee travelling or no committee travelling at all.

That is something that, over the next few weeks, I guess the chairman and I will have to monitor and try to make a good judgement on.

Mr. Chairman: The clerk and I have already discussed it. The best fare out of Toronto at this point in time anyway, unless the airlines bring in something in the next few weeks, is via Canadian Airlines to Halifax and it requires only locking in 14 days in advance. So we do have some flexibility. I think that if we do not know by the end of June, then we are in pretty bad shape around here. Talking to the House leaders, they seem to indicate they do not expect that we will run past the first week in July and probably not even that long.

Mr. Ballinger: So that means we will be sitting for sure.

Mr. Miller: We need some co-operation if we are going to make it by then.

Mr. Chairman: OK. We have a motion moved by Mr. Ballinger.

Motion agreed to.

Mr. Chairman: I now ask that we continue in camera to put the final touches on the draft report.

The committee continued in camera at 11:24 a.m.

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Publications



STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87:
MINISTRY OF NORTHERN DEVELOPMENT AND MINES
ORGANIZATION

THURSDAY, MAY 19, 1988

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)
VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)
Ballinger, William G. (Durham-York L)
Carrothers, Douglas A. (Oakville South L)
Dietsch, Michael M. (St. Catharines-Brock L)
Fawcett, Joan M. (Northumberland L)
Martel, Shelley (Sudbury East NDP)
Offer, Steven (Mississauga North L)
Pope, Alan W. (Cochrane South PC)
Runciman, Robert W. (Leeds-Grenville PC)
Smith, David W. (Lambton L)

Substitutions:

LeBourdais, Linda (Etobicoke West L) for Mr. Ballinger
Miller, Gordon I. (Norfolk L) for Mr. Smith
Tatham, Charlie (Oxford L) for Mr. Carrothers

Also taking part:

Adams, Peter (Peterborough L)

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Northern Development and Mines:

Smith, Brock, Deputy Minister

Milne, Dr. Victor G., Director, Ontario Geological Survey, Mines and Minerals
Division

Tieman, W. Dennis, Assistant Deputy Minister, Mines and Minerals Division

Gammon, Dr. John, Director, Mineral Development and Lands Branch, Mines and
Minerals Division

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, May 19, 1988

The committee met in camera at 9:40 a.m. in room 151.

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ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87
MINISTRY OF NORTHERN DEVELOPMENT AND MINES

Mr. Chairman: I will call to order the meeting of the standing committee on public accounts. Today the committee will be investigating section 4.10 of the Provincial Auditor's report, "Weak Management Practices, Mines and Minerals Division, Ministry of Northern Development and Mines."

We have before us—and I would appreciate your signalling to the committee; I know who some of you, are but for the sake of others—Deputy Minister Brock Smith, on my immediate left. We have Ron Vrancart, the executive director, corporate services division. Is he here? If you will be testifying, then would you please come to a microphone whenever Mr. Smith signifies? We also have Dennis Tieman, assistant deputy minister, mines and minerals division; Dr. Victor Milne, director, Ontario Geological Survey; and Dr. John Gammon, director of mineral development and lands branch.

For the benefit of our guests, on my immediate right is the clerk of our committee, Doug Arnott, and the researcher for the committee, Wendy MacDonald. On my immediate left is Doug Archer, our Provincial Auditor, Gary Peall and Pit Chiu, on the far left, from the Provincial Auditor's staff.

I would propose that in order to focus our questions we break down our inquiry into three categories or three issue areas, if you like: the first one is the issue of inadequate planning and project selection process, Ontario Geological Survey; the second issue is the significant project backlogs and delays, Ontario geological survey; and the third issue is major administrative deficiencies, mining recorders. The last issue could really be broken down into a number of issues, but I thought it was better to lump them together in that area.

Does the deputy minister have any opening statements to make?

Mr. Smith: I had some informal comments. I do not have an official opening statement.

Mr. Chairman: If you have some general statements to make now and then if you have some specific statements in each of the categories that I have broken down, before the questioning starts, feel free to interject and offer them.

Mr. Smith: OK. Well, thank you very much. We are pleased to be here this morning and pleased to have an opportunity to review the very comprehensive report Mr. Archer made.

He put this in the form of a letter to us which arrived on September 29, 1987, and because of the time constraint, which he acknowledged in his report,

and we are grateful for that, we were not able to provide an official response that he could put into his published report.

However, since that time I have responded to Mr. Archer in writing, a letter which, of course, he would have, and subsequent to my letter, we have continued to take a number of actions to further get on with implementing the recommendations he made. We can get into that in a moment, but maybe I will pause on that for a minute.

I just wanted to mention in a general way that we are dealing here with the Ontario Geological Survey and the mining recorders offices, which are long-established institutions and agencies of the Ontario government. The OGS was founded, I believe in 1891, to provide geoscience data, research and mapping services to the Ontario mining industry. We are proud of the organization. It has had a long tradition and it continues to serve the exploration part of the mining industry very well, or at least so I am told by the people I meet with in the industry since I have been the deputy minister.

The mining recorders offices were established in 1906 as part of an amendment to the Mining Act at that time. As you know, they serve the function of supervising claim title, registration and maintenance in the mining area. They are very busy people at the moment with the mining boom or exploration boom going on in the north. Last year, the figure I have is that they processed some 58,000 new claims.

Like any organization, particularly established ones, there comes a time when you have to take a fairly comprehensive view of the management structure, because things can fall out of date and new ideas can be slow to get into organizations. So I quite welcomed Mr. Archer's review of these institutions, which has provided a kind of agenda for management action, at least to me and the other senior members of the division since I came.

Overall, I would take the spirit of his observations to be those of constructive criticism, and we have no serious problems, as I have indicated in my letter, with any of them. I think it is a matter in these organizations of concentrating perhaps too much on the business of the day and serving the client group and sometimes forgetting, as the years or the decades go by, that management techniques and concepts change and you have to take steps to upgrade and update the organization with respect to those processes.

We have been given a kind of a blueprint here to provide a guide for us in doing that, and very early on in my tenure as deputy I made it clear, as did the Minister of Mines (Mr. Conway), that we regarded this report as one that should be studied very closely and all of its recommendations, wherever feasible, implemented. We can go in to that in some more detail if you wish.

I have here a piece of paper which puts out the recommendations of Mr. Archer and then has our response to it below.

Mr. Chairman: We have a summary of that. We can give you our summary of what we understand your response was, and if your summary is any different —

Mr. Smith: I think our summary may be a little different in the sense that it goes on from my letter to Mr. Archer, because we have taken further action since then and I have outlined it. It is rather an informal way of doing it, but we organized it so that you would have it right beside the recommendations.

I wonder if I could give you—

Mr. Chairman: I have to go out for a minute but I am sure if you give it to Wendy, then we can table it as an exhibit.

Mr. Smith: I am in your hands as to how you would like to go about this. I am cognizant of your categories, which I believe follow the structure of the report the way it is written. I am prepared now to go through and make a general comment in each of these and then, if you wish, you could look back and get into detail with the staff, or we could take them one by one, whereby I would make a general comment and then you could follow it with questions or further observations by the relevant officials.

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Mr. Chairman: I know the members of the committee have a number of questions and we have been briefed by both the auditor and our researcher in camera. Perhaps your statement could be fairly brief because I think that a lot of the points they are concerned about will come out in the questioning.

We appreciate your indication that you agree with some of the auditor's findings and that you have taken some action. I think what members of the committee want to zero in on now is the action and specific detail on particular items. I think that can probably come out in the questioning.

Mr. Smith: Perhaps I need not go on at all and you can just ask me the questions.

Mr. Chairman: We can give you an opportunity at the end of each item, if you like, to make a statement or bring out any points that the questioning may not reveal.

Mr. Smith: That is fine.

Mr. Chairman: That may be of more use to you. OK. We will start. I have an exhibit which has been tabled now with the clerk by Brock Smith, the deputy minister. The exhibit deals with his commentaries to the specific items in the auditor's report: Inadequate planning and project selection process, the Ontario Geological Survey. Questions?

Mrs. Fawcett: I can see that there certainly are concerns about timeliness and quality of your operation. Do you have outside clients as well as the ministry? Are you spreading yourself too thinly? Would it be better if you dropped these outside clients until you got the ministry in order? I do not know. Those are just comments on that kind of thought.

Mr. Smith: I will give a preliminary comment, and then Mr. Tieman or Dr. Milne might want to comment. The role of the Ontario Geological Survey is to service outside clients. It is to service people in the exploration business. That is really its whole raison d'être and we have to keep that foremost in mind. Vic, would you like to expand on that?

Dr. Milne: Yes. First, I do not think there is any question of quality.

Mrs. Fawcett: Yes, that is true. But to maintain the quality and so on, I am just wondering. It seems to take so long to get the finished product.

Dr. Milne: We do service the industry and the general public. It is an information service really. We are acquiring information on the geology of

the province which is used by government and industry and for research at universities externally. The principal purpose is to get that information and get it out to the public. That is our prime focus. Maybe I should give a little summary of what is involved in a project.

There are several types of projects. We all use minerals, whether it is your fibreglass or your concrete sidewalk, and they all come from rocks. Ontario has an abundance of that. Our job is to go out and indicate where those are, what they are and how they relate to each other. From that, exploration companies can determine whether they will go to explore for minerals. People will determine where they can extract gravel. Engineering groups can look at where they can construct things. So it is an information acquisition process.

The first stage of that process is spending a minimum of, say, one summer in the field collecting information. Then there is a process of analysing and researching that information, which may take another year. Then there is process of actually preparing that for publication. It is this string of activities that we have to bring into co-ordination.

I should say too there are stages along that process where information is released in various forms. The thing that is largely delayed is the final and polished version of the information. We have summaries of field work which we give in December of each year. Any of the field projects comes back and reports, and we put on a seminar, and there is a publication which goes out and gives all the highlights of the information.

Throughout the next year there will be preliminary maps prepared. There will be summary reports or preliminary reports prepared. The final component is a final map and report, which usually needs printing and coloured map publication. Those take quite a bit of time. That is the thing that tends to get delayed. The others are reasonably well on track, in general.

So it is a long process. It is an information acquisition process by ourselves and converting that to forms that then go out to the public and the industry so that they can use it for the purposes they seek.

Mr. Tieman: Dr. Milne can show you a sample of the kinds of reports they produce. There are anywhere from 600 to 800 published reports a year on geoscience data for particular areas, and they are extremely comprehensive. We have some recent ones. They come out almost weekly.

Dr. Milne: This represents a summary of field work. This is published in December of each year, and also we put on seminars where we have about 700 people attending to hear about the activities. The next stage after that would be the generation of a preliminary map, which is this black and white map. You can see it is a very busy sort of thing and fairly difficult to read, except for those who are really interested, who will take it, use it and apply it. Locating the rock is basically what the survey is. That is the mapping, the positioning.

After that, you have to determine what the rock is and then you start getting into the research. Then you want to relate that to other rocks, and that gets into research and interpretation. That is what proceeds then beyond the preliminary stages, and you get into final reports, which are this type of publication with a colour map, which is much easier to read because of colour. Also, because of the thought and the effort that goes into it through the editing process, much of the clutter is reduced and it is made much more legible and understandable.

That is the basic type of survey, going out and mapping an area. A field crew of five people normally covers about 200 square kilometres a year. That is a field season. This is Hemlo. This would represent about a 200-square-kilometre area. There are other types of surveys done. There are different specialties. This is for bedrock, and it relates more to metallic minerals.

In the same area, we did an aggregate resources study on the Hemlo area, and that relates to the sand and gravel and the glacial stuff that gets dumped on top of the bedrock. From this, the industries up there can determine where they can access that kind of resource. In fact, there is a cement company that I think is established up there now, and it is utilizing the information from this to determine where it can get its resources.

Mrs. Fawcett: I guess two things come to mind then on this. Would you be taking on too many projects then? I think one of the things that was mentioned was the use of the newer technological equipment to speed up some of these things.

Dr. Milne: I do not think it is too much. It is a changing process, so we need to get information out quickly. We are in a period of transition at the moment, with computers coming along.

Mrs. Fawcett: Right.

Dr. Milne: We have converted, say, enough text reports to what we call "autopublication." Once it is put into the computer, it never gets handled on paper again until it gets to the other end. We used to have to go through a process of typing and retyping ad infinitum. The principal backlog for us at this point in time is in our coloured maps. The cartographic process went through a stage in the earlier 1980s, doing it by the traditional process. It is very slow. That was putting things back for 6 months, 12 months and so forth.

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We are now at a stage where we are moving into computer production, actually, of our coloured maps. This is one that we produced just recently of an area just west of Pickle Lake. Actually, it is an area where the St. Joe Canada Inc. mine is just coming into production and we did this work—a little plug here—by the time they did their work. But we generated this by computer. The information, once into the computer, is manipulated solely from a console. No drafting and so forth is required.

We have two terminals at work on this at this point in time and we are upgrading that to six. That should then take care, much more rapidly, of the production of coloured maps, which are the principal things that slow us down, because of the labour-intensive aspect of drafting and colour field codes.

Mrs. Fawcett: I did a little cartography myself once and so I know. OK. I will let someone else go. Thank you very much.

Dr. Milne: There has been a slowdown in the processing and we are moving towards computerization of that, which is escalating the productivity quite significantly.

Mr. Chairman: Mr. Smith, I think we have had an explanation of some of the technical aspects of what you are doing, but I wonder if, for the sake

of the committee, we can get back to some of the management aspects. In the document that you have just tabled with us, you have stated that "...division established interim recording procedures to capture criteria details of the priority selections, in response to the auditor's recommendation."

I guess I am still not clear what process you have in place to decide what the priority is of your client groups and how you choose which projects you are going to work on and in what order. I wonder if you can give me, in nontechnical jargon but in, perhaps, the management jargon which, I think, members of the committee are better able to understand, exactly how you set your priorities.

Mr. Smith I will give an introductory comment and I will ask Dennis Tieman to follow that up. We are in the process of moving towards the kind of system that Mr. Archer believes we ought to have. We are not there yet, but we have taken as, I outlined here, a number of steps to do it. On an interim basis, we have established a policy subcommittee in the minerals and mines division to begin to examine, on a more formal basis, the project selection criteria so that projects can be selected in a more structured manner. Also, the documentation as to the selection process would be done. With respect to the—

Mr. Chairman: I wonder if I could stop you there because I want to understand exactly what you have done. You have set up a committee to establish the criteria by which you will decide on your priorities, but you could not, at this point in time, give us some document that would show what those criteria are or some plan to implement the use of those criteria. Is that what you are saying, that the committee is still working on it?

Mr. Tieman: We are still working on it, sir. We are in the process now, as an interim process, using, primarily, a consultative mechanism with our client groups. That includes a whole host of various prospector organizations plus the nine departments of geology in the province, which also have a very profound interest in where we do some of our work. A great deal of subjectivity goes into the question of where the greatest geological opportunity and need are. It is very complicated in the sense of the scientific judgement as to the, as they would call it, opportunity that may exist in an area if you do the work to find out what kinds of minerals are in the ground.

In addition to the Ontario Geological Survey, we also have about 50 geologists in the field who had not fully transferred to the ministry at the time the audit was done, so you are only looking at sort of the head office component of our geological program. We are bringing our field geologists, as well, into the process so that we have not only the scientific experts in Toronto appraising the project selection process, but also our field staff, who are very active in dealing directly with the local industry, particularly in the north. So we are bringing all of these groups together and we are also trying to define more precise criteria. We should have that shortly.

Mr. Chairman: Is there a point in time, Mr. Tieman, when members of the committee and the Provincial Auditor could expect that, were we to meet with you, you would have all of this in place and we could have some evaluation of your criteria and what is going on?

Mr. Tieman: We are aiming for October 1 so that they would be in place for the consultative process that would go on prior to the next operating season.

Mr. Chairman: So, if this committee then, were to consider the possibility of a recall in November, you might be in a position to update us and to show us some concrete advances on the concerns expressed by the auditor?

Mr. Tieman: Yes. We would be very pleased to come back.

Mr. Chairman: And that is a realistic deadline? We do not want to give you a deadline such that you will come back and say, "We are still consulting."

Mr. Tieman: No. We will be here.

Mr. Chairman: Fine. Thank you. Are there other members of the committee with questions on this particular item? Are there other questions?

Mr. Adams: I apologize for coming late. I would like to go back to the mapping side of it. Is any of your data collection in the field computerized? Are you logging stuff initially so that it goes straight into your system?

Dr. Milne: We actually have a pilot project going in. We had a very small pilot project last year, actually recording information on to the computer in the bush count. This year we have expanded that to five field crews. They will not make their entries right on the spot. They will still be traversing through the bush taking notes, but the first transposition of the notes into something that they will work from will be into a computer now at the base camp in the bush. The intention is to work that right through the system. In fact, we are introducing a computer-aided design-computer-aided manufacturing software application with that so they can do their mapping and prepare some of the preliminary map work when they are actually in the bush. Again, it will cut back on drafting and reproduction requirements when they come back from the field.

So, we are easing into it. We do not want to leap in the wrong direction, so we took a small crack at it last year and there were some wrinkles that had to be worked out. We have improved on it over the winter and now there is a larger test going on.

Mr. Adams: I know in plane survey now it is quite normal to use computer field books and, in fact, go straight to the drafting table.

Dr. Milne: The thing is, what we do contrasts fairly significantly with the topographic survey. With the topographic survey's point location feature there is a lot more information that goes in with the description of the rock, its properties and its characteristics in relation to other things. It needs the power that now exists in current microcomputers. You could not have done it about three or four years ago because there was not the capability or portability of the power, especially when you get into the map part which uses a lot of memory space to work with.

Mr. Adams: Presumably, you have purchased the software for your computer mapping, judging from the example that you showed us. Did you get it from somewhere else?

Dr. Milne: Yes. This is a system that has been developed in-house. We are still reliant, to some extent, on external services. For instance, we do not have a map scanner that can scan a whole map, so we have a contract with Environment Canada in Ottawa that does have a few scanners. What we have

been working with up until now has been drawn manuscripts. That then had to be taken to scan. If you do it by a digitizing table and hand scanning, it takes forever. We contracted with Environment Canada for the full-scan process. That is how we worked up this map. Ultimately, however, our maps themselves will be digitized as they are produced by the jobs.

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We are using the Ontario base mapping base also. That will become the fundamental base for all our maps, and those maps are being produced by the Ministry of Natural Resources. They are responsible for producing the Ontario base map coverage of the province. They will be producing those in digital form ultimately. Our base map will be in digital form and we will be inputting the information digitally right from the start, so we will not need that kind of scanning ultimately. Where we use the scanning is for old information.

One of the things about geological information is nobody wants to throw any of it away, because 20 years ago or 30 years ago someone stumbled over something and made a note about it, but nobody paid any attention. Then a prospector goes in there and he finds it, gets an idea and goes with it.

Mr. Adams: But a lot of that, though, stays in the books and does not go on the maps?

Dr. Milne: This is the problem. You have to then convert that to computer form and that means scanning and digitizing and a whole lot of effort in there. You do need scanners and digitizers for that, but future work should go into the computer directly and then that should become unnecessary.

Mr. Adams: The emphasis was on the production of the maps though. It is Geographical Survey of Canada software and GSC is doing some of that?

Dr. Milne: No, it is not GSC. The software and so forth we use for our process is from a local group, Corvus Canada, and a Montreal firm. It is a combination of internally generated—

Mr. Adams: It was not the factual information I wanted. Perhaps it had come up before. In so far as it is other people's software and you have consultants doing it and perhaps some federal government involvement in doing it, has the idea of in fact hiving off of the map-producing process completely and just doing it commercially been considered. I did not know if that had been raised here.

Mr. Chairman: No, it has not been asked. Mr. Smith, would you like to comment on that?

Mr. Smith: I cannot comment on others. Since my time as the deputy minister, I have not discussed that aspect of privatization of mapping one way or the other. It is an interesting concept. Perhaps Mr. Tieman can talk about that.

Mr. Tieman: We are considering it. We have not done a thorough study at this point. There are issues, I am told by the management of OGS, of confidentiality. Much of the material that we release is brand new and everybody comes running the minute we release it. We try to maintain a fair system where everybody gets the same opportunity at the same time to get our data because they tend to run out and want to stake claims and do things like that. There is an issue of that sort, but I do not think that is a fundamental

problem. I guess it would be, at this point, finding enough competitive suppliers in the private sector where you could be assured of getting a good price for the product that you are selling. It is certainly part of the future consideration of how we do business in the future. We will be looking at it in more detail.

Mr. Chairman: But you are saying that there could be a security problem with it?

Mr. Tieman: That is one. I do not think it is a fundamental problem. It is a reservation, I guess, that some of the people in OGS and in the rest of my division have about this material being in other hands, as it were, until it has been released.

Dr. Milne: There is also an integrated process that still goes on to some extent between the author and the generator of the map.

Mr. Adams: That could go on if the map was being produced in the private sector.

Dr. Milne: Then you get to my third point, which is the degree of experience with geological maps and geological information and asking the proper questions and so on.

Mr. Adams: I am simply sounding out the possibility. As it is the maps that are the delay, and I know this would not apply for the solid maps but for the surficial maps, would there not be some compromise, in some situations, between the really well done field map where people have actually travelled over the terrain and you have produced a base map and done the whole thing and something that was a mixture of a map and a very sophisticated aerial photograph? You have taken an aerial photograph and you have put things on it and it would not have the accuracy that a full map would, but might be produced more quickly?

Mr. Tieman: We do that. We actually put out interim reports of all kinds. We have maps that are less than perfect. The discussion has been on sort of a very final polished product, which will be around for another 100 years in somebody's library.

But we do, during any project, put out first of all at the end of the field season, something that is less than perfect. In fact, if you come to some of the open houses where we display these maps, you can see they are certainly rough maps. Some of them have just come out of the bush and done it by hand. Information does come out in stages with increasing perfection, if you will, up to the final report.

Mr. Adams: I have seen the notes on how valued your final products are. But again, it does seem to me there may be situations in which such a product might well be the final product.

Mr. Tieman: I would have to ask Dr. Milne about that.

Mr. Chairman: I am going to allow somebody else the question, Mr. Adams.

Dr. Milne: The thing is we have got the fact that the initial product is unrefined. There are errors in it and we take no responsibility for those. People who use them know they are using them at their own risk. But

basically they would like to get the final product where they have a fully thought out and proved-up conclusion.

One thing I would add though is that computers in fact are going to change our output. The important part of this is not simply the map, but it is how we build our database. In fact, people are now asking us for tapes or discs and we are starting to generate discs of information rather than generating the great wads of paper for certain types of reports at this point in time.

Ultimately it is going to come likewise with maps. We are developing a specially related database where you will not only have the benefits of a paper map with the stuff there, but actually all the information too. If we can start the database properly, people will be able to work that back and forth in any way they wish.

Also, we have a range of types of maps. We have the geological bedrock map, which you saw. There are the surficial maps. We also have geophysical maps. Geologists are now starting to apply more and more remote sensing information. By bringing all of this into the database, you can actually generate any permutation of combinations that you would like to think of ultimately. That is what you have to get to, but that takes a considerable amount of time.

Mr. Adams: Just a comment, Mr. Chairman. Please understand me. We are interested in speeding up the production of the maps and in maintaining the quality. I would not want to say for example that I would want the quality of the field books and the sort of information that you hinted at being reduced.

Often, by the way, it strikes me that information in those books that is not geological has been of great interest later on, simply because they are the only people who have been through who understand that. But we are discussing here the end product and how you get that stuff out.

Mr. Tatham: Just a few questions. On the technological age of the people involved, do you have people trained every year or do they go back for training for the new methods and new methodologies that are available?

Dr. Milne: Not every year. In the context, we have a spectrum of specialities acquired. There is the geological and geophysical and then there is the cartographic and the computer. Actually, in the computer area we have a considerable number of quite young people because in effect, in changing it over to that and bringing staff in for those purposes, they are still quite young and well versed in the teaching they had recently.

We are actually putting out quite an amount in training those people and bringing them all into the new system. The changes in technology are happening so rapidly with software and so forth. In the applications of those, we are sending quite a number of people for training in that particular area.

In the application in the field, we expect that the geologists and others ultimately would look at using the computer like a telephone. They do not have to be able to understand all the complexities and so forth, because the software makes it user-friendly; they can do the things they want to do without being very complicated about it. What we need are people in the development side of it, the systems side of it. You understand that. We are training and retraining people there.

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The difficult interface comes in the geological area. How do you get the science and the understanding and the subtleties of that over into a computer which says yes and no to things, and ultimately ease things up? That is where we have introduced one or two geological people, younger geologists coming out of university who are trained with some computer background, and that basically is where we are developing our test approach to this thing and people trying this out. But the ultimate thing is that the computer should not be something you have to figure out.

Mr. Tatham: It should be with you.

Dr. Milne: Yes, it should be an aid; it should not be an inhibitor.

Mr. Tatham: Right.

Dr. Milne: Getting to that point is someone else's—

Mr. Tatham: Are you not sending your older geologists back to take training?

Dr. Milne: Some of the geologists are taking some computer courses. We have not been involved with computers for that long, so we are gradually progressing through. The normal event is that there is a high level of apprehension, and then people start to work with them, find the advantages and then ask, "Hey, can I go on a course?" or "Can I get one of these for myself?"

Mr. Tatham: Are they paid more to do this? Are they given a bonus or something like this to—

Dr. Milne: No; this is seen as a tool, and they should have it. I think what we are looking for from the geologist is a geological understanding and skill. We are not going to give geologists a highly complex computer thing to do but we are going to introduce them to a computer when we think it is a stage at which they can very easily handle it and understand how the information from their science is being squeezed about by them.

Mr. Tatham: Another question—

Mr. Chairman: I am looking at the time. We have used 45 minutes on the first item. I am not referring to the present speaker, but we have had a number of questions which I think are kind of judgement calls on my part as to whether they are public accounts questions or whether they are more appropriate to estimates.

I am wondering if members will focus on the first item and on public accounts types of questions. I would not want to have to recall the witnesses. I am sure they are very expensive witnesses to have before us, and our time is also valuable. Carrying right along then, Mr. Tatham.

Mr. Tatham: What does it cost per map or per publication compared to other jurisdictions? Have you ever had a comparison?

Mr. Chairman: Now that is a public accounts question, by the way, for those of you who are new to the committee. Would someone care to answer that?

Mr. Tieman: I do not think there has been any specific cost

comparison. I am not sure whether this comes up under item 1 or 2, but we have retained a consulting firm to deal with a number of the recommendations in Mr. Archer's report, particularly project tracking, project management and project costing. Out of the study that was started, the consulting was retained about a month ago, and it will be starting shortly. Those are really the kinds of questions that we hope to be able to answer by putting in a system of the type that Mr. Archer and his staff have recommended.

Mr. Dietsch: I found answers to some of my questions here within the text. I guess the one question I would ask is in relation to the question you asked in regard to the priority setting and those reports being ready for November.

On the other aspect of the updating, if you will, of the management system, is that report going to be inclusive within the report that would come forward in November? I am talking about the consulting firm that was contracted to provide analysis on the project management system.

Mr. Smith: My understanding of our commitment on the first point was that it dealt with the criteria of the project selection.

Mr. Dietsch: Right.

Mr. Smith: I think Mr. Tieman will correct me if I am wrong. The consulting report deals with the issue of backlogs, delays, costs and tracking. It is a separate exercise, but there is no reason why we cannot follow through with that, the same way as we are on the other. I think you might be more interested in what we are doing to implement it, rather than what the report itself says, but either way, we would be prepared to come back and follow that up.

Mr. Dietsch: I guess what it does at this point is preclude any questions that we might ask at this time because it is under review by you. That is exactly what I am interested in, what you are going to do to implement the plan. I am not as much interested in the content of the plan as I am in the implementation.

Mr. Smith: Right.

Mr. Dietsch: That apparently, according to your submission here this morning, is not going to be ready until July.

Mr. Smith: That is correct.

Mr. Dietsch: So, Mr. Chairman, that almost precludes any questions we might get into in that relationship.

Mr. Chairman: Yes, but it does not preclude us from asking the questions in November.

Mr. Dietsch: No, absolutely, and that is why I flag it now.

Mr. Chairman: Yes. I have one last question. I wonder if you can explain to me from a layman's point of view—and I think most of the people who are watching you on television are not only laymen but also southerners who do not have the experience that you people have—can you explain the role the 16 resident geologists play and what is your process of co-ordinating their activities with the other team? I think that was a concern that the auditor had, as to whether or not there might be some duplication.

Mr. Smith: Mr. Tieman should answer that.

Mr. Tieman: I think that is a valid comment. At the time the resources were transferred to us from the Ministry of Natural Resources, there were two separate organizations, the Ontario geological survey and people in the field who were reporting separately dealing with geological work at the regional and local level. Now that they are all in one organization, we are working on rationalizing the goal of the OGS vis-à-vis the resident geologist.

The resident geologists, in simple language, provide an interpretative service to the local people with regard to the local geology. They take the reports that are generated by OGS and attempt to interpret, translate, or whatever you might say, what significance those reports have as they relate to the specific geological interests in any particular part of the province. We have 16 resident geologists all the way from London across the south to Tweed, Bancroft and Huntsville, and the other 12 are in northern Ontario.

Mr. Miller: That is four for southern Ontario and 12 for the north.

Mr. Tieman: Yes.

Mr. Chairman: Does that meet with your approval, Mr. Miller?

Mr. Miller: That was for information.

Miss Martel: I would like to move on to the second issue that we had noted, and that would be the backlogs and delays.

Mr. Chairman: I would be happy to move on to that then and put you first on the questioning.

The Provincial Auditor informs me that he has no further comments or questions on item 1. I therefore ask that we move on to the second item on our agenda, namely, the significant project backlogs and delays. I think that we have slid into these despite my categorization and asking people to stick to the items under discussion.

Miss Martel: I apologize if I ask a question that may have been asked while I was out but I would like to start in terms of what the auditor found concerning the delays in the project completion; in particular, in the review of the 1985 field work, the fact that in at least 25 projects, the status was unknown and in the remaining 39, there were some problems about the particular point each was at.

To start the question in that area, I would like to ask you what the status is of those 25 projects for which, at the time of the auditor's report, the status was unknown.

Dr. Milne: It is unfortunate that the auditor used the summary of field work as a basis for determining the projects, because the summary of field work is actually a summary of activity. What was reported there were 64 activities with separate authors. There are, in fact, only 39 projects of the Ontario Geological Survey reported in that summary.

The other components are subcomponents of projects where two or three people were working on the same project but in different areas and reported separately on those in the summary, and a couple were simply short visits. In Toronto, for instance, it was a two-day visit to a hot area at that time. In

the summary of field work, this was reported as some quick update information for the public.

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So the summary of field work constitutes a summary of reports of activities. Actually, the auditor has a good point. We should be relating those specifically back to projects within the report. Then people would recognize which projects they were related to. Our public generally is not interested in a project's being project 86-1 or 86-2. It is just interested in the information, and our effort has been to put out the information.

There were 64 activities reported. There was also a significant number of regional activities that were reported there which, again, were not OGS projects. So there was a mix of regional activities that had gone on during the summer being reported, subactivities of projects being reported and then some things which were simply short visits and so forth providing quick update information.

What the auditor is asking is for us to link a whole series of files of information. There is the planning stage; there is the estimating stage; there is the conversion to the allocation; there is the implementation process, starting with funding and expenditures; and then there is the output. We have that on paper largely at this point in time. It has been in separate streams and it is difficult to keep it all intact.

Basically, what we are being asked to do now is to tie all those things together, and the summary of field work is another place where we can show a linkage if we simply put in that a particular activity is project 86-1 or 85-7 or whatever. But starting from the summary of field work, it was not an optimum place to start to look for the projects, because that was a list of activities, not a list of projects, in essence.

Miss Martel: If we were to look to find the complete set of projects and to understand then how far each of those projects was along, where would we look? My sense in reading that was that whereas he might have started in the wrong place, there was a great deal of information missing, whether it be maps or preliminary reports, etc. Where do you go then to find that type of information to determine how each project is moving along?

Dr. Milne: In early 1987, we started looking at a computerization of the project flow, the actual production side of it, and we have introduced a computer software system called the programmer into the publication unit. That now can print out what stage a project is at, whether a preliminary map has been produced, whether an open file has been produced and so forth. We now have that on stream, but it is not enough.

We took a stab at it ourselves initially, to try to bring some computerized flexibility and speed into this system, and we tackled the project flow first. When the auditors came in, they looked at what we were doing there but said, "However, all that has to be cross-checked and referenced to planning and budget process and everything else," and we do not have that in our computer.

So you can now get an update on where projects are through the programmer process, but it is simply in relation to a project X report. There has been a preliminary, there has been an open file report or it has been published as a final report, but it does not give all of this other

information that we really now have to link. That is what we really contracted the outside help for. As scientists, we are not quite sure how we can interlink that network of information of financial planning and production very simply, so a consultant is going to bring that to bear on our problem.

Miss Martel: Is this another item then, if we looked back into the first section, the first issue we were dealing with, on which we will have to wait until some months down the road, perhaps November, before we have a sense of where you are at?

Mr. Tieman: That was what I was speaking to in answering Mr. Tatham's question about cost in relation to publications. It is this new system that Stevenson Kellogg Ernst and Whinney just started working on which will give us the answers to these kinds of questions and provide us with regular reports as well at senior management level. So my answer was really to item 2 in that earlier discussion we had.

I cannot say for sure. The tentative date, I think, is July. I am not sure how quickly the consultants will complete the work and whether they are going to find it more complex than they originally thought. I am a little reluctant to give an absolutely firm day as to when we will have had the report, studied it and then figured out what kinds of systems would need to be put in place, but we would be happy to give a report on that at some point.

Mr. Adams: If I appeared in one of your offices—I am the member for Peterborough—and I said I had heard very well founded rumours that gold had been struck in my riding, how would you deal with that in terms of your projects? You have a very heavy workload and I would want this looked at.

Mr. Tieman: That would not be Dr. Milne's group you would talk to; it would be the resident geologist in the field who would probably be the first to know what is going on in the area.

Mr. Adams: Let's assume he did not.

Mr. Tieman: Then you would try some of our other staff in the field. This is the other role I said that they provide: interpretation and information to people in their local communities. They also provide the feedback into central places as to what is going on out there. It is really a two-way flow. It is an important function of theirs.

It is quite conceivable that we would hear about that through perhaps one of the universities doing some work and discovering this, but most significant information comes from private sector exploration.

Mr. Adams: Lakefield Research is in my riding. I think it is owned by Falconbridge. Let's say Falconbridge came and said: "The people at Lakefield Research have said there has been gold struck in Peterborough. We want it up on your list of priorities." How do you handle that?

Mr. Tieman: That would depend on what we could do. If they have already found gold, there is not an awful lot of geological mapping that will help them. We would first find out if we did have reports. There are just tonnes of data around. I am not sure about your riding, but we would look at data that we would have on any drill holes, any drilling that had been done in the area over the last few years. It would depend on what the question was that we were being asked to answer.

Normally at that stage the process goes to advanced exploration and the

companies undertake the drilling and so on to delineate what they think they may have found, and that is a very expensive and protracted process. But we would be right there, through our regional staff, or if it required some kind of expertise from a professional, a senior geoscientist from Dr. Milne's shop would be available too.

Mr. Adams: How do I get to the top of your list, though?

Mr. Smith: Can I interrupt? I think the sense of your question was, how do our priorities change relative to where exploration activity is taking place? It is my sense of being deputy minister here that they do indeed pay attention to that.

First of all—Dr. Milne will go on and explain this—there has been a big shift from base metals to gold in terms of mining interest. That is reflected or ought to be reflected in where our activity goes. Second, when there is activity in a particular area, and Dr. Milne earlier mentioned the Pickle Lake area which has been very hot, obviously our criteria say we ought to be sending more of our people into these kinds of territories to see what else we can sort of dig up, to coin a phrase. Have I got that right?

Interjection: Yes.

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Mr. Chairman: If there is suddenly a gold rush in Peterborough then, we know there will be a flood of people going in there.

Mr. Adams: I know why you are interested up there already, because of the Hemlo thing and all that. I was just wondering what sort of pressure you are subjected to and how you respond to pressure—again, I use myself as an example—from anyone who comes to you, some powerful organization or a person or whatever in the community? How do you respond to those people?

Mr. Tieman: We respond in a number of ways. This goes back to some earlier comments I made about trying to set up a consultative process with various representative groups to get some priorities straight.

Right now we probably have thousands of requests in any year to do pet projects from people who have a scientific curiosity or interest about some particular geological formation or from companies that have a commercial interest. This is why the criteria are not easy to come by in terms of balancing all these priorities. The consultation process has not been totally effective because everybody brings pet projects and all you do is heap on more and more demands through your consultative process. It has not been totally effective in terms of setting priorities. That touched on one of the areas.

It depends on what they want. Very often we can redeploy the local resident geologist who is not working on a significant long-term project. Our priorities are most flexible at the local region. They will change from one area of interest to another on a daily basis, depending on the interests of people who come in to see that person, and they fluctuate.

Their priorities at the field are relatively flexible, but their ability to provide very detailed scientific information is also relatively limited. That would have to go into a longer-term project and it would be subject to next year's priorities and that sort of thing, if it required a long-term scientific examination of the area.

Mr. Adams: You have your routine long-term mapping projects, so you are going ahead with those. Then you will presumably go with these special places. In any particular year, have you really virtually cut out your routine mapping or do you always give that first priority and then go on to what might be called special projects?

Dr. Milne: Actually, one priority-setting process has involved the regional people. In essence, we have looked at the resident geologist and regional staff for a sense of where the activity is, what the level of activity is and what the projection might be for that. But you are right. In order to provide systematic coverage and also a scientific understanding, you have to tackle it in a reasonable fashion so that you get the most out of it, and at the same time you have to be responsive.

We have never eliminated all of what you might call our basic mapping, for creation of a general understanding of the thing, and developing models, for instance, for looking for mineral deposits. If you constantly scurry around the ones that are found, then you know nothing about the hinterland out from there. That is where you are going have to go look for the other ones. We try to keep that balance and we have never subsumed the base part for the activity part.

There are discretionary components that we are involved in to some extent, too, where special programs are funded if an initiative comes up and the priorities have been established, if it is necessary. We look to the regions generally—plus we have interactions with industry—to provide us with a more reasoned perspective on what industry is doing.

In the early days, there was a tendency to chase exploration. The problem there is that you get there after they have left. In mapping and surveying, it takes a year or two years to get the information assessed and to make some sense of it. By that time, they are somewhere else saying, "Well I do not have any information here." So chasing that—

Mr. Adams: Fundamentally, your strength is knowledge of the province's geology.

Dr. Milne: And how that all fits together, and developing models for people can then look at and say the best way to—

Mr. Adams: So you will not take my request now?

Dr. Milne: We probably have some information on it already.

Mr. Chairman: Any further questions on this section? Mr. Archer, do you or any of your staff have any further questions or comments on this area?

Mr. Archer: I do not believe so.

Mr. Adams: Could I ask a question? On the priority matter, coming at it from a clinical, nongeological point of view, are you satisfied with the response now on the point about the preliminary report?

Mr. Archer: Certainly we agree it is no simple matter to develop the criteria for setting priorities. We are satisfied with what the ministry has indicated as the process it now has in place, particularly with the October deadline that it has established.

Mr. Adams: The quality of their products is excellent. I would like

to put that on the record. I think many of their products are unequalled in Canada, and in fact elsewhere in the western world.

Mr. Chairman: Mr. Smith, did you have any further comments or a summary on this?

Mr. Smith: I could not do any better than the previous statement.

Mr. Chairman: It seems as though geographers and geologists have some kind of overly complementary professions, so he may have a professional interest in what you are doing as well.

"Major Administrative Deficiencies, Mining Recorders": I wonder if we can start our questioning.

Mr. Tatham: On just one story here that reviews had identified over 2,000 incorrect interpretations of the act across the province, what are you doing to overcome it? I am sure there are always going to be some problems or some mistakes made, but how do you reduce that number?

Mr. Smith: Let me try the general answer and then we can get into specifics, because this is a complicated, difficult and very serious problem that was uncovered.

The first thing to do, obviously, is to improve the management of the mining recorders themselves, as we indicate in here, so that they are given a more consistent set of instructions that are documented in some sort of manual and regularly reviewed and updated, and the practices of the individual mining recorder evaluated against what the procedure should be.

This, I believe, happened a year or two ago, and it was discovered that in fact the mining recorders were not all behaving in a consistent fashion.

Mr. Tatham: Do they not have a particular form to fill out? I know nothing about it. I am strictly an outsider.

Mr. Smith: Maybe Dennis Tieman or John Gammon might elaborate on what I am saying, but the number one thing is better management.

Number two, up until now there was no ability in the Mining Act to correct for technical errors that are made by staff, as there is, it is my understanding, in some other statutes. This created the problem that where a technical error had been made because a mining recorder inadequately understood the strict provisions of the Mining Act, the mining claim involved could technically be in forfeiture. This is what in fact was the case and led to the situation Mr. Archer wrote about.

I said the first set of actions is management. The second is legislative, to have a mechanism so that the minister and the ministry can correct the situation, if and when it is discovered. The Minister of Mines (Mr. Conway) has recently introduced an amendment to the Mining Act in the Legislature—it has had first reading only, I believe—that is designed to get at the second point. So those are the two ways we are dealing with that.

I wonder, Dennis or John, if you want to elaborate on the administration and management of the mining recorders' offices.

Mr. Tieman: If the chairman will permit me, I will just make a few

general remarks on a somewhat more detailed level and ask Dr. Gammon, if you want to pursue precisely how the recorder function works.

I should tell you the mining recorder is essentially responsible for administering the Mining Act. The Mining Act covers how you acquire title to mineral resources in the province. It is a very detailed, legalistic act, and they are fundamentally the arbiters as to who is entitled to register a claim, whether that claim is a good claim and whether it should stand in the record as being a sense of title to the person who filed that claim. It can be appealed.

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Mr. Dietsch: You should have given Peter a copy of that right off the bat.

Mr. Tieman: People spend a lifetime studying all the ins and outs of the Mining Act.

A decision of the mining recorder can be overturned by a special mining court known as the Mining and Lands Commissioner, who functions essentially as a judicial arbiter of our decisions. Normally, there have been about 50 to 60 appeals a year. Very often a decision that the commissioner will make will, in fact, overturn or change the context of all our decisions and require us to re-examine previous decisions in the light of a new judgement from the commissioner. Some of the errors that were detected came out of that kind of situation, where the rules had been redefined by the commissioner in relation to the interpretation of the act. The act has many areas where it is subject to considerable legal interpretation as to what the act means. That is fundamentally the challenge they have.

There are nine mining divisions in the province, each with a recorder who has responsibility for deciding on and recording claims from people who wish to acquire title under the Mining Act. I do not know whether you want me to go on any further or do you want to pause there for questions and perhaps we can get into even more detail as to what their role is.

Mr. Chairman: Mr. Tatham, did you have a question?

Mr. Tatham: The other question was about the fees. I understand you are reviewing the fees.

Mr. Tieman: Yes.

Mr. Chairman: Would you please move closer to the microphone?

Mr. Tatham: What is the philosophy on fees in Ontario and in other provinces and jurisdictions around the world? What are the reasons for the fees here and what are the reasons for the fees in other places? What do they do?

Mr. Tieman: The fees vary all over the place. We have looked at jurisdictions across Canada and some other places in terms of fees. It is very hard to compare because some provinces do not even have, and certainly in the United States you do not have a mining recorder system because the minerals have already been patented and there is no process of giving titles to minerals. So they do not have quite the same system. Each province has different kinds of instruments they issue and the charges vary quite a bit.

The fees in the Mining Act have been in there for a long time and I am not sure I could explain what the philosophy was at the time those fees were last adjusted. They run from things like this: If you want to examine one of the claim record books, it is 25 cents per claim, to give you some idea of a whole list of very minute activities. One would wonder whether one should be charging 25 cents for that sort of thing if indeed we are providing a service to people to be able to look at our public records. That has been in there for 50 years and that is the sort of thing we are re-examining now. One would hope and expect that we can develop a more coherent philosophy.

With the age of computerization, we also have started—again, in response to the early findings of the Provincial Auditor around the security issue—a pilot project to computerize the Timmins mining recorder's office. This has been a very complex project and we are still working on that one office to see if we can, within the legal boundaries of the act, actually conduct business and use a computer.

When we do that, it is going to change the whole nature of our service. For example, you will be able to just push on to the screen and look up claim records. So those kinds of fees will probably disappear out of the system. As to whether we bring in new fees for providing tapes of electronic data to people or whether we allow them free access to our computers, we have not quite resolved some of those questions.

I do not think there is a profound philosophy in the current schedule. We are working on one as it relates to the next 20 years and the way we will be doing business, which will be quite different from the old system that this act covers.

Mr. Miller: Does it exactly cover the cost of operation?

Mr. Tieman: I have heard that said. These fees were designed 30 years ago, and I cannot answer that question. It does approximately cover the operation but not quite. The current two years in which we have had responsibility for this program has been a hyperactive period because exploration is at its peak and all the exploration activity involves recording claims in our offices. From our data for the last two years, it is hard to determine whether we are covering our costs or not.

Mr. Chairman: If I could put the security issue then into layman's language, if I file a claim, it is possible that you have only one record, that someone who wants that claim could in fact steal the claim. It disappears from your records and then that fellow could go and file on my claim. Is that correct? Then you have a dispute over whose claim it is because he and I have pieces of paper and you do not have one or you have his and not mine. Explain to me how it works.

Mr. Tieman: To answer, now I am going to ask Dr. Gammon, who is the director of our new mineral development and lands branch here in Toronto, who I might say has recently joined the division. He came from British Columbia where he was involved with the BC government in the mining side of things. I think he understands quite well our system in Ontario. They are quite different from province to province. Perhaps, Dr. Gammon, you could explain a bit about it.

Mr. Chairman: Maybe in so doing, what I am asking you is, what is the committee dealing with on this and how will the computer system make a person's claim more secure once he files it so that it is fairly clear whose claim it is?

Dr. Gammon: I realize how conscious we are of the time. I think it would be worth just running very rapidly through the process of acquiring title and how that relates to the questions and concerns of the committee, to put that into context.

The first thing you do is acquire a prospector's licence to go out and prospect in the province, and that gives you the ability to stake claims. To set that in perspective, last year, for example, there were about 5,500 prospectors' licences in good standing in the province. Then you go and you physically stake the claim in the bush and you record that in the mining recorder's office for the respective division. Again, to give you a feeling for the volume of work involved, there were about 186,000 transactions related to claims in mining recorders' offices in 1987.

Then you have your claim, and in order—

Mr. Chairman: What do you call a transaction?

Dr. Gammon: Either recording the claim, cancelling it, transferring it or reinstating it.

Mr. Tieman: Perhaps you could explain just how you record a claim, what pieces of paper are involved.

Dr. Gammon: Of course, yes, because that does relate to the process.

You go in with your sketch showing where you physically staked it and your licence to show that you were allowed to stake it. At the time you get your licence, you get little metal tags with an identification number on them and you put those on the claim posts. You come to the mining recorder with all this information and he does two things. He plots that on a map to show other people and to keep a current record of what ground is open for staking and what has already been picked up.

The main thing he does then is start a claim record, and that claim record has a number and the identification of the person who staked it, the prospector's licence, the tag numbers involved, its location. That piece of paper then becomes the one and only documentation of that claim, and it follows the claim through its lifetime. It is, therefore, critically important.

Again, there are about 140,000 active claims in the province at the moment. There are more twice that number that are in active records that are on file. As the claim continues in its life, in order to keep it alive, to keep the claim active, you have to work your claim.

The way the current Mining Act works, the little book Mr. Tieman just held up, is that you have to do days of work on your claim. Those escalate. The first year you have to do 20 days, and then 40, 40, 60, so after five years, you should have done 200 days worth of work on your mining claim. That is then considered an adequate effort and input and you can apply for a lease. The leases are generally for 21 years. All of this procedure of documenting that you have done these days' worth of work gets added to the claim record.

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Of course, technology has increased since 1906, when the act was first written, and days' worth of work on behalf of a prospector were the most appropriate way of doing it. People now are conducting very sophisticated

technological exploration approaches as well as just stripping off overburden and digging trenches and looking for mineralization. Techniques have been developed for converting these more advanced technological techniques into the framework of the man-day system mandated by the act. To document it, people have to submit reports showing what work they have done and what the expenditures were on that work. It is looked at by my branch and also by the mining recorders in the field, as far as physical work is concerned, to see if that is adequate to satisfy the requirements.

All of these data are summarized on this mining claim record, so as the claim continues its lifetime, that piece of paper becomes more and more critical and more and more interesting. Of course, if a deal is made on the ground and the prospector sells it to a company, and then that company, in turn, options it to another company, all of this information is also recorded on that piece of paper.

Mr. Chairman: Are there cases where people have claimed that their records have been stolen or have disappeared or been lost?

Mr. Tieman: Maybe I can answer that. Mr. Chairman, you cannot steal a record. The records are available and it is very hard to steal the records. The discussion is about stealing original documents, the first original document that established the claim, with the signature of the person on it. On occasion, people may have been asked to produce that.

Because the record is there, nobody challenges the record, except when there are huge kinds of lawsuits floating around and a lot of money at stake. But it is very seldom that anybody needs to see the original, to see the signature and the colour of ink or whatever it is they are looking for.

We are cognizant, though, that we have to keep those very original records somewhere secure in case they are ever needed. Those will always have to be kept in some kind of physical security, and probably in a vault. What we are hoping to do, though, is move all of the records and the copy of that, and all of the records that go with the claim, onto a computer that is available for everybody, so that we separate what has to be kept in total physical security from what needs to be available for information in terms of the record. That is where we are heading, to try to separate and put the basic feed on computer, which will make us more efficient, if nothing else. It will provide better service than is usual.

Mr. Chairman: And you expect that procedure to be in place when?

Mr. Tieman: I cannot say, because we are still in the pilot project, trying to determine what costs there will be to put a computerized system in place in the province in all nine offices. That pilot project will not be finished until, I think, early July, and at that point we will have all of the cost information, the legal complications that go with changing—

Mr. Chairman: So by the time you report back to us, or to the auditor—whatever the decision of the committee is—in November, then you should have that in place and should be able to give us an update on it.

Mr. Tieman: We can give you a report on the outcome of the pilot project and some indication of where we intend to go, whether we will bring that into all of the additional eight offices. But I should warn you that this is a costly process, putting computers in, and we will have to develop a very strong business case in terms of getting the necessary funds authorized. That will take some time as well.

Mr. Chairman: Otherwise you may be subject to another auditor's report.

Mr. Tieman: It is possible.

Mrs. Fawcett: Some of this was touched on, Mr. Smith, such as the fact that the ministry does not really have a policy and procedure manual. That is, you do not really have one, per se, for all of the offices. Would this contribute to some of the inaccuracies and so on? Am I correct in assuming that you are working on this or that there is going to be one produced?

Mr. Smith: We do have a policy manual.

Mrs. Fawcett: Oh, there is.

Mr. Smith: Mr. Vrancart would agree. Mr. Tieman can elaborate, but we had not written into the policy manual specific instructions for mining recorders, or at least they were not good enough to prevent what was happening from happening. That is what we are trying to do now.

Mrs. Fawcett: It is being updated.

Mr. Smith: Yes.

Mr. Tieman: We are talking two manuals here, I think: the basic administrative manual and a second manual that provides guidelines to mining recorders for the consistent interpretation of the Mining Act, which obviously is a very legalistic direction, in essence, as to how they should interpret and deal with situations under the act.

Mrs. Fawcett: So there is a manual right now that is available to everyone or that is being used, but it is sort of being looked at and updated.

Mr. Tieman: Being approved.

Mrs. Fawcett: OK.

Miss Martel: In terms of that, then, I understand the mining recorders will then have some kind of procedure that they are supposed to follow. What do you do about the case of the commissioners, who are the second level of appeal in that case? What are they looking at or falling back on in terms of their own procedures?

Mr. Smith: The commissioner has a separate status under the act. I believe administratively he is with the Ministry of Natural Resources. From our point of view, the commissioner is on his own. In other words, we do not have the administrative authority to review the commissioner's procedures in a day-to-day working sense. But the whole Mining Act is under review.

You may recall the throne speech's indicating that there would be a green paper produced by the end of the year, whatever the wording was. We are working on this now within the ministry, and in that context we are looking at the role of the commissioner to see what the longer-term future of that sort of body ought to be. I do not know whether that answers your question or not.

I cannot—and I will be corrected if I am wrong—write a manual of administration for the commissioner. He stands apart.

Miss Martel: In terms of the some 2,000 incorrect interpretations of the act, how many fall into a jurisdiction that you are in control of, that being the mining recorders, and how many are we looking at in the other area in terms of the commissioner, who may be setting his own guidelines as well?

Mr. Smith: Technically, they are all under our jurisdiction, because they arose as a result of actions of a mining recorder. Therefore, they are all our responsibility.

One of the problems that occurred that Mr. Tieman was referring to is, however, when the commissioner has made a subsequent ruling that says in essence, "You haven't been doing something the right way," he draws this to our attention, in a way that the auditor might draw to our attention something else. It then becomes our responsibility to correct it.

The problem in this case with the outstanding claims is that if you have been told you have been doing something the wrong way, it has, in turn, affected the title to a lot of different claims. Suddenly, there it all is. There they are and here you are, and the toothpaste is out of the tube. This is the problem we have been wrestling with: to get it back into the tube, as it were.

Mr. Tieman: All of those claims will be corrected to be consistent with the commissioner's interpretation of the Mining Act when the bill is passed that gives us some power to correct, instead of trying to have the commissioner change his mind around the interpretation, which we do not have the power to do. He is supposed to be independent, and I think that is a proper role.

Those will be dealt with. The number has been reduced since then considerably. A number of those people have, in essence, dropped their claims because they had no interest in proceeding to do the work necessary, so the number has naturally declined since the time of the audit. We are keeping very close track of those that are left, and they will be straightened out when we have the power to do so.

I have one other comment. We have been attempting to analyse all of the commissioner's judgements. The deputy minister's analogy to audit was quite appropriate, because we get a judgement on our interpretation of the act. It is very formal and legalistic and usually runs to 20 or 30 pages. We get one or two of those every week, and we are trying to develop a system of analysing the implications.

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In fact, going back over the 400 or 500 judgements he has made in the last 20 years as a basis for some of our interpretation that we would give to the mining recorders, that has not been done heretofore, but we believe that will give us some sense of direction that might be provided to the recorders in terms of the current mining commissioner. It is conceivable that if we change the commissioner we will have another set of interpretations that we will have to cope with as well.

Mrs. LeBourdais: Coming from that hotbed of mining in Etobicoke West, and with very minimal knowledge in this area, I found your outline most interesting. I just want to know: Once a land claim is made on a particular site, does it apply to any resource found within that land, or does the claim have to be made on a specific resource?

Dr. Gammon: First of all, you can stake the claim only on crown land that is open for staking.

Mrs. LeBourdais: Yes.

Dr. Gammon: What you get as a result of that is the right to explore that claim for minerals. It does not give you rights to any other natural resources on there apart from the minerals that are specified in the Mining Act.

Mrs. LeBourdais: I see. And that would lapse after a certain amount of time?

Dr. Gammon: It lapses automatically if you do not do the work that you are supposed to do.

Mrs. LeBourdais: OK, thank you.

Mr. Chairman: This is not a public accounts question, but Mrs. LeBourdais has got my interest. You cannot stake a claim on a person's private property, then. Is that what you are saying? I had always—or does that vary from province to province?

Dr. Gammon: It varies very much from province to province.

Mr. Tieman: In Ontario you can stake a claim if the mineral rights are still in the crown, even though the surface rights have been disposed. We have a lot of those situations where there is a surface patent but the mineral rights have been reserved to the crown, and the Mining Act allows you to explore under certain conditions on what you would call patent land, even though the underground mineral resources are still in the crown. This causes us some concern from time to time.

Mr. Chairman: I asked that coming from Quebec and having had perhaps different experiences from what you were stating.

Mr. Dietsch: You made reference in some of your correspondence with respect to some administrative deficiencies that would require some changes in the Mining Act. What type of deficiencies are you referring to?

Mr. Smith: This is the inability under the current act to take any action to what you might call amend the error made by a mining recorder. Under the current act, the claims were in jeopardy. If you will pardon the analogy, it is sort of like finding out that a little mistake was made on 10,000 drivers' licences in the province and that technically they were not valid drivers' licences. Because there really has been no harm done here, the mistake was inadvertent and so on, you would want a mechanism to make them valid drivers' licences, as it were, without asking everybody to come in and take a new test.

We did not and do not have that power under the Mining Act, so the purpose of the amendment that has been introduced quite recently by Mr. Conway is to give us that power under the act so that we can make these necessary adjustments.

Mr. Dietsch: Are those all going to be addressed under the bill that is before the Legislature now? Is that Bill 132?

Mr. Smith: That is correct.

Mr. Chairman: Are there any deficiencies which the auditor has pointed out that you need to correct through legislation rather than through regulations under the act that are not covered under Bill 132?

Mr. Smith: The short answer, which is probably not an answer, is that that was one, and Bill 132 covers the very immediate things we wanted to do. We are undertaking a whole review of the act, as I mentioned earlier, and some other aspects of Mr. Archer's report can come into that, but I am not immediately aware of any other of his recommendations that involve legislation per se, with the exception of the fees, of course. That has to be addressed.

Mr. Chairman: The fees are not addressed under Bill 132 then.

Mr. Smith: No. The fees are an important matter and long out of date, as the auditor points out, but we did not feel it was of pressing urgency to put it into that bill. We certainly will be addressing it in the green paper.

Mr. Chairman: Fees are often, under other acts, done under regulation rather than by statute. Did you not consider, when Bill 132 was coming in, bringing in an amendment that would allow you to do it by regulation and therefore perhaps revise it without having to go through a process that is often very backlogged, namely the legislative process?

Mr. Smith: Yes, we did consider that, and other things were considered as well that were kind of hanging in there. In the end, we decided that we would limit this act to only the bare bones, partly because the fees, in my personal view at least, should not only be removed from the act into regulation, but you might want to make a number of other changes in the structure of the fees, in the way they are charged and so on. We felt that in the spirit of the green paper process, the mining industry should at least be given a chance to comment on that. Therefore, putting it into the green paper route would allow that before it was done.

Mr. Chairman: I think you may find that as a result of some changes that are being proposed by the standing committee on regulations and private bills, there may be processes eventually developed in Ontario that will allow comment on regulations through notice and comment. I do not want to preclude a report which I am in the process of working on writing with some of my colleagues in the other committee. If that does happen, then that might solve your problem, if you simply moved it into regulations with the safeguard that kind of thing would then go out for notice and comment.

Mr. Dietsch: Speaking to that in terms of the line of questioning, do you have a target deadline or date with respect to the green paper, its process, on what is going to happen from your viewpoint?

Mr. Smith: I am responsible for preparing the green paper for the review of the minister and the cabinet, who presumably would then release it. I believe the throne speech made reference to referring it to the standing committee on resources development. Things kind of get out of my hands, but it is certainly our intention to have that paper well before the end of the calendar year, hopefully in the early fall. It would be my recommendation to the government that it have this paper referred to the resources committee as quickly as possible in the fall. Of course, it would be up to the committee after that to determine its own agenda.

Mr. Dietsch: I recognize that side of it.

Mr. Chairman: Mr. Tatham.

Interjection.

Mr. Chairman: Sorry, I was consulting with another one of our colleagues, who wanted to know whether a certain line of questioning would be public accounts matters. I was just giving him my advice that I would probably rule him in order, if he wishes to do it fairly quickly. Mr. Tatham has the floor first.

Mr. Tatham: Just to sum up, would it be fair to say that you recognize that the auditor has made valid comments and you are going to have the answers to those comments by November?

Mr. Smith: The comments are valid, and we intend to implement his recommendations. I do not think that is too much of an oversimplification. He may look at what we have done and quibble at the margin, but by and large, they will be implemented.

I cannot promise you they will all be implemented by November. I think what we had promised there was that the criteria for project selection would be defined and available for the review of the committee, and the report on how to minimize delays would also not only be completed but we would have developed a plan to implement it, and that plan would be available as well.

I might say, in parentheses, that I do not know whether I am messing up the terms of reference of the report, but as a result of this morning's meeting, I intend to ask them, in that report, to look into the privatization and also the map quality issue that Mr. Adams raised, to see if those two aspects can help to facilitate cleaning up backlogs and preventing them in the future.

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Mr. Chairman: There are a number of issues that have been raised today and I am going to allow Mr. Adams to pursue for a few minutes another line of questioning.

It may well be that as a result of your answer to Mr. Dietsch—which I did hear even though I was talking to Mr. Adams—with the green paper going to the standing committee on resources development, there may be some matters before this committee now that we may want to simply refer to that committee for future consideration, after we have a further report back in November.

So that is another route that the committee may want to think about, rather than necessarily having us get into a whole lot of areas that start getting into policy areas rather than public accounts areas.

Mr. Adams: I will keep it to an observation. It goes back to Dr. Gammon's discussion of the claims and leases process. We are delighted to hear about the pilot project, but it strikes me, as you described it, that it actually cries out for computerization, despite the security problems.

With the number of claims you deal with and the amount of activity in the files, if you could come up with an appropriate system, it does strike me that it would be both more secure and more efficient. It would be very well worth doing.

I was discussing with the chairman that on this committee we also dealt with the Ontario health insurance plan computer, both hardware and software. You may have read about that and the fact that there are some problems with that. Their system has grown up over time. It is not an easy problem. For example, what they have to be able to do there is that if someone bills me for taking my appendix out, they have to go into my file and find out if I have had the appendix out before, before they will pay out. You are not supposed to have them out twice, I understand.

They have difficulty, by the way, with identifiers and that is why, apparently, in our OHIP system they have 20 million people instead of the number of people we have in the province. It goes back to the original claim and the original document. It seems to me the key thing would be to have that document, which you obviously must keep—it is a legal document—as a clear computer identifier. Then run the thing through forever and you will go back to that individual and that piece of ground. I am sure you understand that.

It does seem to me that you might seriously consider consulting with the Ministry of Health because they are dealing with a very complex computerization problem as well. Although it is different in substance to yours, I suspect there are similarities.

Mr. Tieman: Thank you very much. That is interesting.

We have consulted with the Ministry of Consumer and Commercial Relations which is presently installing the province of Ontario land registration and information system, Polaris, which is a major computerization of land titles. It is essentially the same kind of system, although ours will not be quite as big as theirs. I hope the cost will not be as high either. So we have looked at a parallel system, if you will, that really is designed to do the same sort of record-keeping that we do.

I am familiar with some of the problems they have had with the OHIP system.

Mr. Adams: Again the two you mentioned, the registry one and yours would be co-ordinate based. Once you have done that, it is exactly the same, I think, as the OHIP one. The iterations you were describing are in fact this way, not this way.

Dr. Gammon: Yes. It is very gratifying to hear because this is exactly the point. The system needs to be implemented across the province.

The Timmins pilot project is working extremely well as far as it has gone and it addresses three areas that are really important. There is the security aspect, that you can recreate a paper document essentially from the electronic file. So the act requires that the public should have access to that information. But if you can recreate it electronically you do not need to physically have the piece of paper. You can put it on a screen or a computer printout. So it looks after that security aspect of it.

In putting the data into the database, every record has to be physically checked. There are manual checks and electronic checks built into the pilot system. So there is an internal audit that goes on, in effect, as the records are uploaded into the computer. The integrity of the existing records is verified at that stage, which is extremely useful.

Of course, the third aspect is customer service. We can produce from a

computerized database a variety of printouts, reports and summaries that would be beyond our capabilities to otherwise do, which are very useful for us internally and will also be useful to the industry.

Mr. Adams: Mr. Chairman, you will recall that the second and third points are exactly the same as for the OHIP computer. They are exactly the same points.

Mr. Chairman: Using your specific example, Mr. Adams, if you did have your appendix out twice, a public accounts report would probably have it listed as appendix A and appendix B.

Mr. Tatham: I would like to suggest that, in our county, we have done this land rate information system. We have digitized every piece of property and it is working. In fact, we had some people in from Qatar in the Persian Gulf to see what we are doing down there. So, come on down and see.

Mr. Chairman: I want to thank Mr. Smith, our deputy minister and his colleagues for appearing before us. I think it is fairly clear that there will be a follow-up. The follow-up may take one of three forms, and maybe all three.

One would be that the committee might decide to ask the Provincial Auditor to follow up in October or November and then report back to the committee, at which time the committee might decide whether or not a recall was necessary, the committee might simply decide that it wishes to recall or the committee might decide to refer some matters for investigation by another committee, such as the standing committee on resources development, and reserve other areas of a public accounts' nature to this committee.

We appreciate your co-operation and we look forward to the progress that you have promised.

ORGANIZATION

Mr. Chairman: For the sake of updating your agenda—and this is pretty much in keeping with the general agenda that we agreed on—we will be meeting in camera for the most part for the next several weeks. We will be booking in the Stadium Corp. of Ontario Ltd. at some time, depending on their scheduling and what is convenient.

Essentially, what we will be looking at is preparing a report on item 4.7, which is the Ministry of the Environment. We will be looking into preparing a special report on the two agencies, the Liquor Control Board of Ontario, which is item 5.2, and the Ontario Housing Corp., which is item 5.4.

Last, I think we should be grouping in several ministries in which there were less extensive investigations, namely the Ministry of Skills Development, which is item 4.11; the Ministry of the Solicitor General, item 4.12; ministry internal audit operations, item 3.4; and the Ministry of Correctional Services, which is item 4.5.

If any of you have not submitted your plans to the clerk for the week of July 9, for the papers which we will be involved in, please do so because we need to make the hotel reservations for that particular item. We would like to know who is going, when you are planning on arriving and so forth.

The committee adjourned at 11:48 a.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMMUNITY SAFETY

THURSDAY, JUNE 2, 1988



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Ballinger, William G. (Durham-York L)

Carrothers, Douglas A. (Oakville South L)

Dietsch, Michael M. (St. Catharines-Brock L)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Offer, Steven (Mississauga North L)

Pope, Alan W. (Cochrane South PC)

Runciman, Robert W. (Leeds-Grenville PC)

Smith, David W. (Lambton L)

Substitutions:

Charlton, Brian A. (Hamilton Mountain NDP) for Mr. Pouliot

Cunningham, Dianne E. (London North PC) for Mr. Runciman

Grier, Ruth A. (Etobicoke-Lakeshore NDP) for Miss Martel

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, June 2, 1988

The committee met in camera at 10:10 a.m. in room 151.

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COMMUNITY SAFETY
(continued).

Mr. Chairman: OK. We have had a motion to move out of camera and we are now out of camera. We have a notice of motion moved by Mrs. Cunningham.

Mrs. Cunningham moves that the standing committee on public accounts request that the Provincial Auditor undertake immediately an audit of Ontario's community release program for forensic psychiatric patients.

Under the rules of the committee, the mover of a notice of motion has a right to address the committee for a reasonable, short period of time to give the content of that.

My problem with this motion is, first, to rule whether it is in order. I want to point out to Mrs. Cunningham and other members of the committee that standing order 43 says, "No motion, or amendment, the subject matter of which has been decided upon, can be again proposed during the same session."

The decision that I have to make, Mrs. Cunningham, is whether the motion which you have just proposed is the same motion as was defeated on April 21. For the benefit of the record, I will now read that motion of April 21. It was moved by Mr. Runciman that the standing committee on public accounts request the Provincial Auditor to carry out an audit of the day-pass approval process for forensic psychiatric patients in the province's psychiatric hospitals.

I guess, Mrs. Cunningham, what I am asking you to do first is to justify to me why this motion that you have moved is not similar or, in fact, using the words of the standing order, is not a subject matter which has been already decided upon.

Mrs. Cunningham: I would not pretend to mislead you, Mr. Chairman, or the committee. The intent is exactly the same. If I am caught up in some kind of a regulation here within the committee and I cannot do it, then I will accept your judgement.

It is my understanding that, if I did bring the motion back in the future, with a unanimous vote of the committee, we could put it on the table. When asking that question, I was told that was a possibility and that is the only reason I am here. I would not begin to suggest it is different. It is exactly the same motion.

Mr. Chairman: I accept your explanation. You are quite right. Since it is the same motion then, I will have to rule it out of order. There is the option for the committee, with unanimous consent, to agree to deal with the motion even though the contents of that motion are similar to the contents of a motion that was defeated earlier.

Is it the wish of the committee to give unanimous consent?

Interjection: No.

Mrs. Cunningham: May I speak to that? Is there no way that I have an opportunity to persuade the committee members why I would even bring it back?

Mr. Ballinger: On a point of order, Mr. Chairman: You rule. There is no debate unless there is a formal motion before this committee. We debated it, it has been discussed and the original motion was denied.

Mr. Chairman: The committee has the discretion to allow Mrs. Cunningham to present a viewpoint. The members may still decide to deny unanimous consent.

Mrs. Cunningham: That is all I am asking.

Mr. Chairman: Is it the wish of the committee at least to allow Mrs. Cunningham two or three minutes to give her views or make her pitch for unanimous consent?

Mr. Ballinger: As far as I am concerned, the answer is no.

Mr. Chairman: All right. Mr. Carrothers says yes.

Mr. Dietsch: On a point of order, Mr. Chairman: I do not quite understand how you make that kind of a ruling. It does not work that way upstairs. When it asks for unanimous consent, it asks for unanimous consent, it is ruled on there. I have not yet heard—mind you, I have not been there that long—I have not yet heard members speaking, trying to convince other members in the House to grant unanimous consent.

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Mr. Charlton: There have been a number of occasions in the House where the government House leader has risen to ask for unanimous consent and taken a few moments to explain his reasons for asking for unanimous consent.

Mrs. Cunningham: I have done my homework on process and I would not be here today if I did not think there was a possibility of, first of all, having the motion introduced and, secondly, speaking to it, given the direction of the chair.

Mr. Ballinger: But the motion is not introduced, with all due respect. Would the chairman rule on the issue, please?

Mr. Chairman: I will rule that Mrs. Cunningham will be given a few minutes to express her concern as to why there should be unanimous consent to allow this motion to come forward.

Mr. Ballinger: I am sorry to have to do this, but I am going to challenge the ruling of the chair. This has been formally dealt with by this committee. It is a dead issue. If she wants to reintroduce it, would you please follow the rules of procedure? As far as I am concerned, it has been dealt with by the committee and it was denied.

Mr. Chairman: The chair's decision is that on frequent occasions

chairs do recognize members of a committee to present a particular point of view at any point in time. If you wish to rule against my recognizing her to have a few minutes to explain her position, then the chair will be challenged. There has been a challenge to the chair.

Those in favour of the chair, please show. The chair is upheld in its decision.

Mrs. Cunningham: I thought there was a lot of new information around this particular problem and that is the problem of a young girl being brutally assaulted because of some patients out on leave from a psychiatric hospital. I really do want to stay with process and what we need to do is to know whether something went wrong with the pass system or whether the process in fact is in order and a mistake was made.

We have waited—this incident took place on March 31—and I think we have been very patient. We came to the committee on April 28 and at that time, in looking over the committee members' concerns, the members wanted to wait until the internal review had taken place. That is the reason they did not want this motion to pass at that time. Anyone who spoke to the motion at that time gave that as the reason for not supporting the motion.

The internal review took place, in a sense. The director of the hospital and I have been in contact. I have a number of reasons to ask for this external review at this time because, in fact, the internal review really did not deal with this issue. It dealt with the whole hospital and many processes and I can just give you a few examples.

They took a look at their whole administrative system with drug and alcohol screens, release of information, community access, access to the approved person, access on worker education leaves, logbooks, administration privileges.

I thought this committee would be most interested in looking at that because, in fact, it uncovered a lot of concerns on behalf of the administration itself. It did not come up with any specific recommendations with regard to the day pass. It really pretty much said "Continue as is," although it did note some concerns of staff members.

Because we were not happy with this, we then went to the House and asked that an external review take place and the Minister of Health (Mrs. Caplan) last week advised us that one would be taking place but it would be, in her words, some length of time before that would happen.

My understanding at the last meeting was that we had two ways to go on this. We could ask this committee to ask the auditor to do an external report immediately, and I do not think that would take a matter of months, and pursuing the question before, it seems like many, many months, because the Minister of Health is taking into consideration some input that she wants from the federal government.

That kind of an investigation will, in fact, take many months. It has to do with the committee itself and the structure of the committee. That is not what we are asking for. We have the whole province of Ontario wondering what went wrong, what can happen to tighten up these kinds of processes. If there was one particular mistake made, then people will probably be satisfied to know that and to know that the system, in fact, right now is probably a good one and a mistake took place.

That is all we want to know, and I think we should know soon. School is out soon; this little girl was 14 years old; parents are really upset across the community. We have received over 100 letters from right across Ontario. Many other members have also received letters, because we have copies, so all of you should be concerned.

We would like to make this request of the auditor, through this committee, because it is the appropriate process. I would be more prepared next week to have a backup file for the committee members to look at. If they still want to vote against it, so be it. But I could I least fill them in on what is happening and give them better information. All the work I have done is public and I just want to know that we are doing the best job we can do as quickly as we can. I guess I am a little shocked at someone not wanting to have that information or not wanting to consider this again.

Mr. Ballinger: That is not the point at all.

Mrs. Cunningham: I do not want to argue with anybody, Mr. Chairman., it is certainly not my nature.

Mr. Ballinger: Do not make those kind of statements then, if you do not want to argue.

Mrs. Cunningham: I would be very concerned if the committee were not in agreement with looking at this recommendation next week and receiving a lot of information, a lot of which is confidential, which I would be prepared to share with the members who have been elected by their own communities. I think it is a special opportunity to be able to do something more quickly. I am not trying to do anything but to give the members of this committee an opportunity to speed things up and to get an answer for the public sooner.

Mr. Chairman: Mrs. Cunningham thank you for your—

Mr. Carrothers: On a point of order, Mr. Chairman: The member has indicated what some of us said last time. I just wanted to give her the opportunity to correct the record. I think the point made by me, at least, was that there is, in fact, in this system no day-pass process. The Lieutenant Governor's warrants, under which someone is committed, contain an either loose- or close-confinement provision, so that in fact there is nothing for the auditor to audit here.

The point I made last time was that the Criminal Code itself, under which the people get committed, was probably the thing that needed to be amended here.

Mrs. Cunningham: Mr. Chairman, if people want to stay with the technical language that the public does not understand, I am happy with that. I certainly agree with your statment only in so far as that. In fact, community access with an approved person is a process within this hospital. It is the WLG, as they refer to it, and they do have a lot of control over that particular process and there is a great deal of information in here. The report is confidential but I would be happy to share it with you. I thought it was something that you would want to look at seriously and see if we could, in fact, get a more immediate response to our concern.

Mr. Chairman: Thank you, members of the committee. The question now is, will unanimous consent be given to deal with the notice of motion moved?

Mrs. Cunningham: Mr. Chairman is a recorded vote in order?

Mr. Smith: You already have one vote on it, how can you have another?

Mr. Chairman: Only if you ask for it.

Mrs. Cunningham: Okay, I am just asking for the process.

Mr. Chairman: The process is, if one person says no, then you do not.

Mrs. Cunningham: All right

Mr. Chairman: Shall Mrs. Cunningham's notice of motion be proceeded with?

Interjection: No.

Mr. Chairman: Not hearing unanimous consent, the notice of motion will not be dealt with.

Mrs. Cunningham: One objection is all I heard.

Mr. Ballinger: That is all you need.

Interjections.

Mr. Chairman: The record will show that unanimous consent was not given and that is all that the record will show.

Interjections.

Mr. Ballinger: That is not the point. You want to play politics with this issue.

Mrs. Cunningham: It is not politics.

Mr. Chairman: Order. Mr. Dietsch.

Mr. Dietsch: The part I spoke to earlier, Mr. Chairman, and I would like it on the record, is that if there was serious concern about this approach, I would have appreciated the opportunity to view that material before you put it on the table.

Mrs. Cunningham: Mr. Chairman, can I speak to that?

Mr. Dietsch: I would like to question that.

Mrs. Cunningham: That is a good question. It is a good question. I had no idea until I came in today that we would not automatically be able to speak to this. I did not think for a minute that we would not put this on the agenda for next week. If I had known that, I would definitely have given you the information before today.

Mr. Dietsch: I heard the member say at the beginning: "I have done my research on it. I know that it takes unanimous consent." I am somewhat surprised that, in order to obtain unanimous consent to put it forward, the information was not provided ahead of time.

Mrs. Cunningham: OK. I found that out early this morning. I am sorry I did not get it ready for you. The other thing is that I truly did not expect that the committee would not want to deal with this; a more immediate way of dealing with the problem.

Mr. Chairman: I think the matter has been dealt with and all views have been noted and are recorded in Hansard. May I have a motion of adjournment?

Mr. Ballinger: So moved.

Mr. Chairman: We stand adjourned until 10 a.m. next Thursday.

The committee adjourned at 11:51 a.m.

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Government
Publications

STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87:

ST. LAWRENCE PARKS COMMISSION

ORGANIZATION

COMMITTEE ROOMS

SKYDOME

THURSDAY, NOVEMBER 17, 1988



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Adams, Peter (Peterborough L)

Ballinger, William G. (Durham-York L)

Collins, Shirley (Wentworth East L)

Cousens, W. Donald (Markham PC)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Nicholas, Cindy (Scarborough Centre L)

Nixon, J. Bradford (York Mills L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Daigeler, Hans (Nepean L) for Mr. Ballinger

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Tourism and Recreation:

Keenan, James W., Deputy Minister

From the St. Lawrence Parks Commission:

Speal, George N., Chairman

Mitton, Robert, General Manager

Gourlay, Steve, Co-ordinator, Finance and Administration

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

Erratum: On page P-14, the credit Mrs. Grier should read Mr. Daigeler.

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, November 17, 1988

The committee met at 10 a.m. in room 151.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87
ST. LAWRENCE PARKS COMMISSION

Mr. Chairman: I am going to recognize a quorum. I have a couple of items that will be of interest to the members. Later we will be distributing my address on the public accounts process to the convention of financial managers at the Chelsea Inn yesterday morning. I will be appearing before the Board of Internal Economy on Tuesday regarding the Canadian Comprehensive Auditing Foundation convention, which we hope to have a member from each party accompany me to.

Mr. Cousens: Where to?

Mr. Chairman: It is in Montreal. It proved to be a very useful experience last time, and we have simply put in for one member from each caucus. My way is being paid by the convention, since I am a speaker at the convention. Last year those of us who attended found it quite useful.

We have before us the St. Lawrence Parks Commission. I would like to introduce each of the people to us, and perhaps they might just signal who they are for the membership of the committee and for the Provincial Auditor and his staff.

From the St. Lawrence Parks Commission are George N. Speal, QC, the chairman; Robert Mitton, the general manager, and Steven Gourlay, co-ordinator of finance and administration. We are also pleased to have our Deputy Minister of Tourism and Recreation, James Keenan, present.

Also, behind Mr. Keenan is Sally Young, the executive director, planning and administration division. I trust that if Mr. Keenan or Mr. Speal wishes to call Sally Young up to assist with any questions, she can simply sit beside Mr. Daigeler and answer questions through that microphone.

In summary, the auditor found substantial duplication in administration, such that the amalgamation of activities would allow expenditures on administration salaries to be reduced, in his estimation, by one third or, in other words, by just under \$500,000, that is, \$430,000. The auditor, in his report, also found that the utilization of facilities was very low after Labour Day. What we are dealing with today is the auditor's concern about duplication of staffing and the time the parks might be open when there would be underutilization.

In response to the auditor's comments, the chairman wrote back that there were efforts to centralize and streamline their administration. The chairman has a statement he would like to read to the committee. We will then follow that by comments from the Provincial Auditor and open it up to the members of the committee.

I would remind members of the committee, since we have a number of new

people on and we have not had a chance to do a lot of professional development with the new members the way we did earlier when the committee was established after the last election, that our role here is not to deal with policy matters but purely with the accountability matters. I hope you will keep your questions to those of a nonpolicy area. I realize that at times that is difficult, but we are a public accounts committee, not an estimates committee, and I would appreciate your co-operation in this.

Without further ado, some of the members are speaking today in the House, which is sitting at the same time, so the deputy minister and the chairman may find some members coming and some members going. This is in no way intended to be disrespectful to you or to show lack of concern about the subject matter.

Mr. Speal: I want to thank you for the opportunity of allowing us to share with you some of the great treasures that we consider there to be for the province in the St. Lawrence Parks Commission.

The St. Lawrence Parks Commission was developed in response to the conditions created by the construction of the St. Lawrence Power and Seaway projects. These projects resulted in the extensive flooding of the shore lands between the towns of Iroquois and Cornwall and the subsequent relocation of farms, businesses and complete towns in 1955.

The current jurisdiction of the commission extends from the Bay of Quinte to the Quebec border and includes 10,000 acres of park land along the St. Lawrence River.

The initial mandate we were given was to safeguard and enhance the scenic beauty and the historic elements associated with the affected area. To this end, parks were created and Upper Canada Village was constructed using historically significant buildings and artefacts collected before the flooding. These initial projects were a significant source of immediate and long-term employment for local citizens. Since its inception in 1955, the commission has been a major contributor to the tourism industry of southern and eastern Ontario and to the recreational enjoyment of the people of the region.

The diversity of operations includes 15 major day-use and campsite areas with 2,500 camp and trailer sites, many of which have full services. In addition, there are three historic sites including Upper Canada Village, Old Fort Henry and Fairfield Historical Park. In addition to that, the commission operates and maintains Upper Canada migratory bird sanctuary, Upper Canada golf course, Chrysler Park marina, the Long Sault Parkway and the Thousand Islands Parkway.

The commission strives to preserve and protect its historic resources and prime recreation lands for the wellbeing, interest and education of the people of Ontario and its visitors. Its dedication and contribution to the promotion of tourism in Ontario is of significant benefit to the economic and social wellbeing of the region and province.

It hosts approximately 2.8 million visitors annually and provides 104 full-time and 620 seasonal positions for local citizens, making it one of the major employers in the region. Through its initiatives, the commission will contribute approximately \$4.9 million to the consolidated revenue fund this year in direct revenues. In addition, the commission contributes significantly

to the regional economy. For example, our merchandising program purchases in excess of \$500,000 of craft and gift products from local and regional Ontario artists and craftsmen.

As chairman of the commission, it is my responsibility to ensure that the programs of the commission are implemented within the context of that mandate, which, as I stated earlier, is to safeguard and enhance the scenic beauty and historic elements associated with the jurisdiction of the commission.

The opportunity to meet with you, Mr. Chairman, and your committee is appreciated and welcomed by the commission to discuss the challenges and opportunities for the commission and the tourist industry.

With reference to the findings and recommendations of the Provincial Auditor, let me say that steps are now being taken to eliminate the perceived administrative duplication in the commission by centralization of all services in a single administrative headquarters and by rationalization of administrative functions. Planning for the new organization is now complete and its implementation will be effected before the beginning of the new fiscal year.

The Provincial Auditor also questioned the length of the operating season. As an operating agency of the Ministry of Tourism and Recreation, we share the ministry's objective to develop a four-season tourist industry in Ontario. The spring and fall shoulder seasons are increasingly popular travel times for some tourist groups, most notably seniors. Bus tours, which are a major travel mode for this kind of tourism, will not visit our part of Ontario unless there are good facilities, services and attractions available to them. By keeping the St. Lawrence Parks Commission facilities and services open during the shoulder seasons, we are offering attractions to bring tourists into the region—tourists who would not otherwise visit our area.

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Thus, while our operating costs may indeed be high relative to direct revenue, I would submit that the economic benefits to the region and the province must also be considered. Having said this, I will assure you that the commission will be reviewing the length of the operating season to ensure that we are cost-effective, taking all factors into account.

Mr. Chairman, I thank you, and that is my opening statement.

Mr. Chairman: Thank you, Mr. Speal. I am going to ask Doug Archer to reply. Before I do that, you seem to emphasize one word which struck me, and it may well trouble some of the members of the committee. You say the "perceived" administrative duplication. Are you suggesting that there was no real duplication? Is that the intent of your statement?

Mr. Speal: The word "perceived" was my word, Mr. Chairman. Prior to the amalgamation of our administrative offices, there was in fact duplication but it was duplication caused because we had several operating areas, one in Morrisburg and two in Upper Canada Village. With the changeover over a period of two and a half years to get one administrative office, we were then, hopefully, able to divest ourselves of some of the duplication that was a direct result of having several major offices.

It is not a duplication. If you had two offices, you had to have two

people answering the phone. It is a duplication of services, but when you have one office you can now get rid of that duplication. It was not a duplication when you had to have two offices.

Mr. Chairman: I think I understand the point you are making and some of the members will no doubt want to pursue that later.

Mr. Speal: Sure.

Mr. Chairman: Mr. Archer, your response.

Mr. Archer: To comment briefly on the chairman's opening remarks, I think, essentially, he is agreeing with the comments we made with respect to administrative expenses, in that they have taken steps or are taking steps to consolidate and amalgamate and thereby reduce the administrative cost aspect of running the commission.

With regard to our comments on the length of the season, I gather from the chairman's response that they feel that the length of the season as it now exists is the way it should be. We are not questioning that so much as the fact that we have seen no evidence that, really, there had been any concrete or direct attention given to that aspect. Certainly the economic and social aspects that the chairman mentions, which are certainly a part of their method of operation, are a sort of implied objective. We could not see that it was in the legislation or even formally stated in any of the commission's or ministry's literature.

What we are saying is, if that is an objective, let us get it out in the open and readily admit that we are keeping the parks open early in the year and late in the year, recognizing that there is a cost-loss factor here from a straight dollars-and-cents standpoint, but we feel that is offset by the economic and social benefits which accrue to the area.

Mr. Chairman: On the area of the unstated objective, Mr. Keenan, would you like to respond to that?

Mr. Keenan: Certainly from the standpoint of the ministry, we see the St. Lawrence Parks Commission as a very strong element of the tourism infrastructure in Ontario and indeed in eastern Ontario. I think, as with most such operations, they are subject to that phenomenon of a July-August peaking in tourism and recreational use with which we are all very familiar.

On the other hand, we are certainly attempting to extend tourism further into the spring and fall for the economic benefit and the jobs that result therefrom. Certainly as far as the commission is concerned, as the chairman has stated in his opening remarks, the commission attractions are a very important part of that in the area adjacent to the Highway 401 corridor and, as such, to operate them falls within the general policy mandate of the ministry, if you will.

Obviously, as the chairman has said, the commission will examine and is examining the issue of season length. I think it is quite appropriate that it be commented upon in your report, Mr. Archer, and it is appropriate that the commission examines that to make sure that, all factors being taken into account, the operation season makes sense.

Mr. Chairman: I am going to turn it over to the committee now and I will probably pursue that later if the committee does not pursue where the

exact mandate is and the direction that allows them to do what they are doing under the present act. We will now have questions from the members of the committee.

Mr. Adams: This question of the social mandate, as Mr. Archer has already brought it out, seems to me to be there. It is a question of how high in your management thoughts it is. Assuming that it is there, an organization, one of the essential functions of which is to provide jobs as well as it can in the region which it serves, ought, it seems to me, to place a greater emphasis on what might be called staff jobs rather than management jobs. Those terms may not be the right ones. In other words, the emphasis would be on large numbers of relatively low-paying jobs in proportion to the number of higher-paying management jobs.

I wonder if you could respond to that thought.

Mr. Speal: I just have one comment before I ask Mr. Mitton. If you look at the staff complement, we have 104 full-time jobs to 620 seasonal jobs. Those 104 are not management jobs. They include security, which must go for a 12-month period. There is a very high proportion of the people whom we employ in the category that you are indicating, I think.

Mr. Adams: If we took the 600, George, and divided them by four or whatever, let us assume they are employed three months of the year, we would have a much lower number straight away to get full-time employee equivalence, would we not?

Mr. Speal: Yes.

Mr. Adams: The 600 employed for three months, I do not know how long these part-time employees work. It would be 150, would it not?

Mr. Keenan: If I might comment on that. The 12-month average unclassified for St. Lawrence Parks Commission is 251, which is a sizeable number in that part of the—

Mr. Adams: Yes. Good.

George, I am referring to you. I am thinking aloud, and George has given me the figures, so it can be argued. Of that core of full-time workers—year-round workers—what sort of percentage is management?

Mr. Mitton: We have actually four managers who are direct line managers who report to me and really run the show. In addition to that, we have three of what in an organization in a ministry would be staff directors who provide human resource services, finance and administration. Below that core group of managers, there is a group of people who are really supervisor-foreman type people. Everyone else, even on full-time are workers. The animals in Upper Canada Village have to be fed and cared for in the wintertime and so on.

I would say that it is not management top-heavy. We use the term "manager" across the commission fairly broadly. There are people whom I would consider under normal terminology to be a foreman, a supervisor or whatever. I guess the heritage of the commission is such that many people are called managers who in the term that you are asking the question, I believe, really are not managers.

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Mr. Adams: Thank you, Mr. Chairman. I am afraid I have to speak in the House, so I will be back.

Mr. Chairman: With the permission of the other members of the committee, I think Ms. Collins had a supplementary on the staffing question.

Ms. Collins: Today we have been told that you have 104 full-time staff. But the information we have from the 1988-89 estimates briefing book of the Ministry of Tourism and Recreation gives us information of 120 full-time staff, which has been increased to 122 full-time staff, including two positions for French-language services. Can you explain the differences?

Mr. Mitton: Yes, we have 104 full-time positions filled at this point. We have converted a number of the salaries for people who have retired or left but have been in full-time positions in seasonal jobs. In actual fact, then, the full-time complement of the commission has decreased since that number was generated.

Ms. Collins: It has decreased since when? 1987?

Mr. Gourlay: Over a seven-year period it decreased.

Ms. Collins: Okay, thank you.

Mr. Chairman: Does that mean you could fill them with either part-time or full-time positions at any time, because you budgeted for them in your estimates?

Mr. Mitton: We could, although with restraint and with the organizational changes that we are making to gain some efficiencies in administration, we are holding some of them open or having the work done by seasonals for the time being.

Mr. Chairman: So it is not your intention to fill them?

Mr. Mitton: It will be our intention to fill some of them when our organizational form is approved by the commission.

Mr. Cousens: Could I defer to my colleague, who has to go the House to speak and I will wait until later?

Mr. Chairman: Certainly. Mr. Villeneuve?

Mr. Villeneuve: Gentlemen, thank you very much for travelling to Toronto and shedding some light on what I feel is a very important subject, a very major employer in the southern section of the riding I very proudly represent, along with the four or five other ridings along the southern limit of Ontario. How many students did you employ last year?

Mr. Speal: One hundred and forty-four in the guard complement at Old Fort Henry.

Mr. Mitton: In the order of 200.

Mr. Villeneuve: Approximately 200. And the vast majority of these

students would be Ontario students; home in Ontario or does it make any difference?

Mr. Mitton: It does not make any difference, but there are more than Ontario students. There were two or three members of the Old Fort Henry guard this year who were from out of province; two or three out of 144.

Mr. Villeneuve: Back to the social aspect of the St. Lawrence Parks Commission. I have many people who express concerns at the cutback, first of all, in the hours of work per week, and also possible cutbacks in the time that they would be employed. This was mentioned in the auditor's report.

I certainly feel that there is a social obligation on behalf of the parks commission, the government of Ontario, particularly when we consider that the area where the parks are situated is economically disadvantaged to some degree. I would like possibly your ideas as to which direction you intend to go vis-à-vis the social aspect. Let us face it, we are talking of 20 weeks' employment. Let us be blunt about it. Is there a possibility that you would be looking at less than 20 weeks' employment for some of the part-time employees that you have?

Mr. Keenan: May I just make a general comment on that before the members of the commission speak to the specifics? As I am sure most members know, during the course of the past year, in order for the Treasurer to achieve the objectives set out in his budget, a constraint was imposed on ministries that I think was pretty much across the board—two per cent salaries and six per cent other direct operating expenses. The generality of the impact on employment was a direct consequence of that.

In the ministry, I forget the number, but I think something in excess of 40 per cent of the salary and wage bill of the Ministry of Tourism and Recreation is made up of the St. Lawrence Parks Commission, Huronia Historical Parks and Old Fort William—all places, not surprisingly, where there are a lot of seasonal student positions. As a consequence, dealing with it as an in-year constraint, there was no option, obviously, but to spread that constraint across the organization including the St. Lawrence Parks Commission. Accordingly, from my office we assigned a target to the commission, and that then leads to the other, and I will leave it to the commission to speak to how they implemented it. Thank you.

Mr. Mitton: I think your question was, are we thinking about how we might go about this. In some respects we are a little between a rock and a hard place. We are in the process of preparing a budget for next year and we will begin discussions very soon with the commissioners on that. Our operating base, after the restraint application this year, is one that we now have to work within and there is the option, I suppose, of returning seasonal staff to their previous hours but, if we do that, then we will have to do it with fewer seasonal staff.

So there is a judgement decision that the commissioners will have to make with respect to whether we employ our seasonal staff for 36 1/4 hours per week which, by the way, is the minimum number of hours to retain their benefits, the minimum level of employment, or whether we return to longer hours with fewer staff, and that would be considered.

Mr. Speal: If I may just follow it up without trying to prejudge how the commission is going to react. It is something that the commission agonized over last year because we do have employees and they are people of the area, and we were very jealous to guard that 36 1/4 hours to allow those benefits

while, at the same time, carrying out our mandate which is to provide a first-class tourist attraction for Ontario.

Mr. Villeneuve: There is a perception, and that perception comes, I suppose, from the people who work seasonally, that the St. Lawrence Parks Commission is top-heavy with management and top-heavy with bureaucrats. I have a list here and I have tabled the letter, which is not signed and I understand why.

For instance, "the signal tower east end has no interpreter; the boat dock east end has no one to look after horse on turn around; hired man's house closed, no interpreter." There is a listing here of about 20 positions that were within the parks—positions in which people dealt with the public. There is a perception by these people that these jobs have been cut back in order to make sure that head office had lots of clerical staff. Could you comment on that and whether it is the intention of the commission to possibly return some of the interpreters to some of the buildings and some of the things that were done in the past which have been cut back for whatever reason recently?

Mr. Speal: Let me just try to answer in several areas. First, in reply to a question that Ms. Collins raised, the number of administrative people, as you have seen, has actually decreased over the period of time so that perception can, I think, be attacked just on the basis of fact.

On the question of having removed people from areas, the answer is yes, but that is a restraint program. As a commission living within the guidelines set by the province, we keep coming to the ministry, of course, and asking for more and trying to justify our program, but we have had to face reality. Right now, Mr. Mitton is the new general manager, having just come to us in the last few months, but already there is a new spirit in that organization of how to redistribute our limited manpower and this might supplement some of the positions that were lost before. I do not know how we are going to employ more people under a restraint program.

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Mr. Villeneuve: I can appreciate that. Certainly, the Long Sault Parkway has got to be one of the nicest areas to drive in Ontario and I think it is underused. Do you feel that the increase from \$4 to \$6 for the use of the parkway has limited the traffic? Is this a problem? Should we rethink this? I am terribly disappointed any time I use that parkway to see very few people along it; it has got to be one of the most beautiful stretches of scenic beauty we have anywhere. It is well maintained. I certainly give the parks commission credit for that; it is immaculately kept.

Mr. Speal: You get into that whole area of: Should the parks of Ontario be free for the people of Ontario or should there be a user fee to try and defray the total costs incurred? As you know, in looking at our budget, we spend \$12 million and we only bring in \$5 million. I think the philosophy of the commission right now is that there should be a reasonable payment for the services we perform for the people of Ontario. It is not only the people of Ontario, it is also the visitors to our province. I think it is a delicate balance and we are trying to play that balance as best we can without making it fully responsive to the expense. I do not think we are prepared to do that.

Mr. Villeneuve: Finally, an area of great concern is how we increase or at least maintain the number of people who visit the area and stay. We celebrated the 30th anniversary of the Seaway this year, and part of the

reason we have the scenic beauty we have there is that there was a hydro dam there.

Would you consider memorabilia not only of 1867 but of pre-Seaway times? I think there is a very real potential to explore here. I do not think it would be possible in today's world with the way things are going to move four villages and flood a vast area of what was very peaceful farm land. Many people still have roots which go very deep in that area and I think we would have a lot of additional visitors who could say, "I lived in that house here in Wales," or whatever. I know there is a bit of that at the hydro dam, but I think it would be a real asset to have fairly extensive memorabilia of pre-Seaway days. Have you considered that?

Mr. Speal: Yes, I think it is a very good point. With the introduction of Mr. Mitton, who is coming with some fantastic ideas, we are going to be bringing to the ministry something called Vision 2000. This is going to be a new concept. We have an obligation to the historical sites there now in Upper Canada Village, Old Fort Henry and Fairfield park, but taking off on what you are bringing, Mr. Villeneuve, there is something else we can do in that area. I am hoping we can collectively, with the ministry, the government, and the commission, develop something outside of Old Fort Henry. We have lots of land, as you know. Without doing anything to Upper Canada Village itself, in a site near there I think we can bring some of that vitality, that history, back.

Mr. Villeneuve: Lastly, do those plans include anything to do with live theatre and a playhouse? I believe we have, again, a real good potential here. I realize it would be a pretty significant capital expenditure, but the wherewithal is there. It is a very real alternative. We are already spending \$5 million more than we are taking in, or beyond that. I think a capital expenditure here, where people would go and watch live theatre in comfort, and a restaurant, would be something special. I think we have part of the puzzle in place. I would like your comments on that.

Mr. Chairman: It is an interesting comment, Mr. Villeneuve, but I do remind members that there is an estimates process whereby policy types of ideas can be discussed. This is the standing committee on public accounts and I am afraid that if we get into policy areas, we are going to get into debate among parties. If Mr. Speal wishes to answer the question in a general way, that is fine, but maybe we can try to stay as much as possible to the auditor's report. I do not underestimate the value of the suggestion which was made to you—and it sounds exciting to me, as an MPP—but this is the public accounts committee.

Mr. Speal: I would very briefly reply that it is extremely exciting to me and I am glad it has been raised in the presence of the Deputy Minister. I can assure you that you will hear more of it, ladies and gentlemen.

Ms. Collins: I want to pursue the full-time staff positions. You have told us that you have 104 full-time staff. We know now that in the estimates there is a provision for 122, if you include the two positions for French-language services. If you do not include those two, you have a provision in the estimates for 120 full-time staff. Correct? But you only have 104, and you have not decided yet what you are going to do with those 16 positions. Was that the answer I heard you give the chairman?

Mr. Mitton: Yes, that is the answer.

Ms. Collins: You do not know if they are going to be full-time or part-time.

Mr. Mitton: We are going through the process in all of the divisions now of rooting out the portion of people's jobs which is administrative. Indeed, there are some people who are in operating divisions who have full-time administrative jobs. In the process of centralizing in one location all administration, there are going to be some organizational changes made. In the process of creating that new organization, having those positions vacant for a few months right now gives us some flexibility to determine whether we require those as full-time positions to be employed that way in the future, or whether they are best employed as seasonal positions.

Ms. Collins: But if you are going through changes and you are doing renovations and different capital improvement, would you not have to know that prior to doing all of that work on administrative offices? Do you not have to know how many full-time people you are going to have in those offices? Did you have a staffing plan of some sort prior to making all these improvements?

Mr. Mitton: I can only offer a bit of conjecture on that, because I was not here. The new administrative headquarters is built with an open-office concept. It has a good deal of flexibility in its design. I think that within some general orders of magnitude, some reasonable decisions were made at that time on what kind of facility was required to accommodate the end product.

Ms. Collins: Perhaps I can just ask the Deputy Minister, then. Is it normal to have a board or commission allocate a certain number of full-time positions and have the ministry leave them open until decisions like that are made? I do not know the normal procedure.

Mr. Keenan: As with the ministry, the schedule 1 agencies are allocated a budget which goes through the estimates process, as has been alluded to. Part of that is a salary and wage allocation. Basically, with the exception of executive positions, which are controlled and must be approved by Management Board and the human resources secretariat, that is, directors—there is only one executive position, by the way, in the commission, the position of general manager—the commission is free to utilize the salary and wage allocation in any way it sees fit to accomplish its objectives. In other words, they can mix and match permanent staff, permanent part-time staff, seasonal staff, student staff, in order to accommodate the needs and achieve the objectives of the commission. We do not control that on a complement control basis.

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Ms. Collins: Thank you, Mr. Chairman.

Mr. Chairman: Thank you, Ms. Collins. For a new member of public accounts, you certainly caught on very quickly how to ask very direct, public-accounts-type questions, and I compliment you on that.

Mr. Cousens: Mr. Chairman, before I begin, I would like to say I have semi-conflict on this one. I was an Old Fort Henry guardsman for a number of years when I went to Queen's. I have a very close association with the Old Fort Henry guard and Kingston and also with Upper Canada Village because I was involved with some of the planning which went into that when Ronald L. Way was the researcher responsible for it. Also, I want to say on the record how pleased I was with the hospitality I received from the commission and from its

chairman, Mr. Speal, and the staff when I went back to Old Fort Henry for our 50th anniversary this summer. It really was fun and I know the 500 or so who returned were delighted with it. That is my good part.

Mr. Chairman: And the hospitality was entirely related to your former career and not your present career.

Mr. Cousens: That is right, but you cannot separate them because I have a great fondness for what they are doing and a number of things. I was concerned with—

Mr. J. B. Nixon: What anniversary was it, Don?

Mr. Cousens: The 50th of the founding of the guard. One of the worries I had, and Mr. Villeneuve raised the question earlier, was the cutback in spending, the two per cent levy which was reduced by the Treasurer (Mr. R. F. Nixon). I am taking the side of the summer students employed there for the summertime who will receive less money by virtue of that cutback than they would have received in other years. How much less on average would the students have received this last summer over previous years? That is the first part of that question. Was it a fair move by the commission to treat the students in such a way, when they had certain expectations to make a specified amount of money during the summer and then did not make it? I do not know who would like to answer that one.

Mr. Speal: I will ask Mr. Gourlay.

Mr. Gourlay: I do not have the exact figure, but the constraint salary figure for the fort was approximately \$28,000, the bulk of that being, of course, with the guard which takes about \$1 million of the total unclassified budget.

That is the impact if you spread it over—the two per cent reduction on the total figure. At the same time, in the spring, appreciating, let's say, the fewer students available, in order to attract good quality guardsmen we actually had raised the rates this year for the first time in a number of years for the guardsmen. If anything, not by plan but I guess by end result, the constraint impact was minimized by that increase in the spring for the guardsmen.

Mr. Cousens: I am just putting it on the record. I do not think that is a good way of operating a business or a facility. I think it is demotivating to employees when it happens. Maybe the question I am really asking is: Was there no other way in which you could have lived within your financial restrictions and constraints without taking it out of the backs of the guardsmen as you did?

Mr. Speal: There were a number of alternatives. This was not the only alternative brought before us. A whole series of alternatives was brought.

Mr. Cousens: What else could you have done so it would not have come out of the—I just go back to the days of students. What could you have done?

Mr. Speal: What I am trying to say is that although there was a range of alternatives this was found to be the fairest way, because it was across the board; it did not apply just to the guardsmen but also applied to the people we employed at Upper Canada Village. There was an equality in the system of an unfair treatment. Another alternative in some areas was that we

could have fired people and just completely cut people out, but that would have taken away from the service we were providing. In other words, you could shut down a couple of houses in Upper Canada Village, but then you are not providing a total feeling when you come in there.

It is the same thing with the guard, although with the guard you cannot fire guardsmen, because you need that complement. As you know, we do an awful lot of work with the Ontario government in the—

Mr. Chairman: They might also fire back.

Mr. Cousens: Mr. Speal, did you feel any kind of breach of faith at all in the relationship between the commission and the employees this summer when you had that cutback?

Mr. Speal: Breach of faith is not a—

Mr. Cousens: Okay. Was it good business practice?

Mr. Speal: We have X dollars. With that restraint, which is a government policy we adhered to as part of the government, we had to agonize over how we could contribute towards this restraint program. This was the fairest way we could come up with. Someone asked, "Why did you not cut out a capital project?" As you know, capital moneys and salary moneys are all differently allocated. When you are told to do a certain thing, you work on it. We did what I thought was a fair job.

I might also add, as Mr. Gourlay said, that we did increase the salaries, because we felt the students had not been increased in a number of years. There was an increased benefit given to students during that year, which of course was taken away from them in some respect by shortening their hours.

Mr. Keenan: May I just make a further general comment? The problem faced by an employer such as the commission is that when you are dealing with an in-year constraint of that nature, you have limited options available to you. Because of the protections accorded to full-time civil servants, the requirement for six months surplus notice, that type of thing, that is not a route open to you, because obviously by the time you have gone through that six months, you do not have enough time left to save money.

The other problem faced by an organization such as the commission is that you are then faced with achieving that reduction in the non-civil-service staff. In the commission, that staff is made up by and large of students and seasonal workers, and the seasonal workers are residents of the local area, so there again you face a decision: Do you cut back the residents of the local area, with families and all of that dependent also on certain work accorded by the commission, in favour of students or vice versa?

As I recollect the decision which was made, and I felt it to be a difficult but a very even-handed decision, it was in essence to reduce the hours for all of that group. As I recollect, there was no discrimination, if you will.

Mr. Cousens: Could I have one more question? Then I will defer others until everyone has had a round. What would have been your proposed maintenance schedule in dollars and cents for both Old Fort Henry and Upper Canada Village, the total you would have requested for this fiscal year, and

how much did you spend? My concern is that the maintenance in those facilities has to be kept up and if you do not spend the money now you are going to pay in a much larger way later on and it is going to cost you more then.

Mr. Chairman: As we are finding out with the reconstruction of the parliament buildings.

Mr. Cousens: Yes, the same kind of thing. What did you ask for and what did you actually spend?

Mr. Keenan: Mr. Chairman, I have the impression that is not a piece of information we have at our fingertips. I am sure if it is your wish, the commission can provide it to the committee. It was not a question we expected.

Mr. Chairman: Fine. If you would send that information to the clerk of the committee, it can be provided to Mr. Cousens and all the other members.

Mrs. Fawcett: I am just wondering if there has ever been a study done on the spinoff advantages of the parks commission; when people come to Kingston, let's say, to go to Old Fort Henry, they obviously do lots of other things too that are tourism-related and dollars flow. The same is the case, I believe, in Morrisburg with Upper Canada Village. Have there ever been any figures in that way or anything you people would have done to push that idea?

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Mr. Speal: Certainly not that I have been aware of in the two and a half years I have been on there; I am sorry. You have the Eastern Ontario Development Corp. and you have the various regional tourist bureaus, of course, which rely heavily on the attractions we supply. They use figures saying that because of those attractions tourists will stay another half day or another day in the area.

Mrs. Fawcett: I am just trying to get in my own head this loss; your revenue and your expenditures. In reality, maybe tourism is benefiting in other ways because of those fantastic attractions which are there.

Mr. Speal: Very much so.

Mrs. Fawcett: Just another question on the interpreters. How does that work? I was interested in what Mr. Villeneuve said, that there were parts shut down or parts of Upper Canada Village which did not have an interpreter. How do you organize that? Does one interpreter do more than one job, or how does that work?

Mr. Mitton: In the case of Upper Canada Village, the interpretative staff really performs as a cast presenting a drama that starts in the spring and ends in the fall. It includes all the gardens, the homes, the industrial exhibits and so on. They do different jobs. They tend to work in three categories. Interpreters either specialize in working in the agricultural part of the village, the industrial part or the domestic part. They do move around and they are involved with different buildings within those categories.

With the kinds of questions relatively sophisticated visitors ask these days, we have to have well-trained interpreters who can handle those questions without having to refer them to anybody because that takes away from the impact of the drama. I am not sure whether that totally answers your question, but that is how it is organized. That is how they are trained.

Mrs. Fawcett: Have there been cutbacks in that there would be areas which would not have an interpreter?

Mr. Mitton: Yes. Over the last eight or nine years, there have been constraints—usually budgetary rather than midyear constraints—where a piece of the program was lopped off to achieve a saving, rather than decreasing the whole presentation.

Mrs. Fawcett: Will you be looking at that to see if you can revamp so that maybe interpreters would have more—

Mr. Mitton: Exactly. As part of the annual budget process the commission is about to start going through for next year, we are going to examine our operational priorities in terms of what we deliver now, what we have had to close down in the past which we might revitalize and then, against that, new things we might do.

Mrs. Fawcett: I know the Old Fort Henry guard go out of the area—in fact, all over the world sometimes. What about Upper Canada Village? Do the interpreters ever go out? Is there an educational program in that aspect?

Mr. Mitton: There is an educational program. The village as a prop becomes very important at Upper Canada Village, so the educational program tends largely to take place there. There are very few occasions, and they are all relatively local, where costumed staff from Upper Canada Village leave Upper Canada Village to go and make a presentation.

Mrs. Fawcett: That might be another money-maker at some time.

Mr. Speal: If I could just follow up, before my time I understand that part of our educational program was taken out to the schools and the school boards themselves paid for that. In the restraint program the schools cut down paying for it. We did not get the money so we fell back, did it there and said schoolchildren come over here. We did have it at one time and would love to do it again if we had the funds.

Mr. Daigeler: As I am just subbing today, I will have to be guided in whether my question is in order or goes towards the policy aspects of.

Mr. Chairman: Just stay clear of policy matters and you will be fine.

Mr. Daigeler: I will phrase it in such a way that hopefully it will fit into the purpose of this committee.

Mr. Chairman: The chair will listen very closely to your phrasing.

Mr. Adams: You have the majority on your side.

Mr. Daigeler: In your opening statement, you made reference to the income and the number of tourists who came last year. Could you give me some indication as to where there has been an increase or decrease over the last year and perhaps over the last few years, relating that, of course, to income as well?

Secondly, is there any breakdown in terms of whether you have more Americans coming or fewer Americans and more Canadians and if so, from which parts? Can you speak a little bit to that, mostly on the economic aspects of it so it fits into the account information?

Mr. Speal: I think we have the figures here.

Mr. Gourlay: Currently, the attendance this year is down by four per cent at all of the operations.

Mr. Daigeler: Down?

Mr. Gourlay: That is correct.

Mr. Daigeler: Could I ask directly, is that unique to the St. Lawrence Parks Commission or is that a general pattern?

Mr. Chairman: Maybe Mr. Keenan will be able to answer that question as to how that affects other operations.

Mr. Keenan: I do not have that information yet. We have not yet compiled some of those data. However, there is no question that strangely enough, the heat of the summer had an impact on the number of attractions. I can recall being at Upper Canada Village when it was remarked to me that at two o'clock in the afternoon there was not anybody there because the heat was so absolutely stifling. In the business we are in, it is hard to contemplate too good a summer, but I guess we are a little bit like farmers. Every summer there is something that causes us some problems. Generally, that was one of the factors.

One of the other factors has been that there was less rubber-tire traffic, I believe, out of the US this year for a number of factors—the election, the weather, the economy. I think our tourism figures may show certainly a flattening out in that respect.

Mr. Daigeler: Is that just this year, then?

Mr. Gourlay: This year it is down four per cent. Last year it was about even. Now we have some attractions that are up, and some are down. Again, seasonally there are variations. As an example, the day use in our parks was up this year and it was up last year. So we have had two very good years of day use as a direct result of the weather. But other attractions are down with an overall four per cent decrease.

The other question was dealing with the revenues and what the picture is with regard to revenues. The revenues this year, overall, are up by three per cent. I do not have the number of years' percentage growth, but it has risen steadily since 1980, at which point there is approximately \$3.6 million. It is now up to \$4.67 million.

Mr. Daigeler: Is that due to inflation? How would you explain that the visits are down and the revenues are up?

Mr. Gourlay: This year obviously the component of inflation has increased it to three per cent. It is very easily calculated. You are probably down just about one per cent, I am guessing.

Mr. Chairman: Thank you, Mr. Daigeler. Further questions?

Mr. Daigeler: It is not so much a question as a statement. I just did not expect this answer. I thought, just from my own personal visits, and I do represent eastern Ontario, that things were looking up. But basically, what you are telling me is that things are stable and perhaps even decreasing. I must say this disturbs me a great deal. I do not know what the answer to it is.

Mr. Cousens: I want to just go back to the one thing. I was asking for your maintenance program that you had hoped to do and how much you spent. I would like to have it for the last five years so that I can get some feel for what was being spent on it. When that happens, I would like to have it not just for this year. Then I can get a picture.

Mr. Chairman: I will see that that will be supplied to us.

Mr. Cousens: That is why I wanted clarification. One of the things I wanted to ask is whether you have a policy as to Canadian content within the commission or within each of the different divisions that sell tourist souvenirs? One of the things that has always bothered me is that you go there and you see something that spells "Old Fort Henry" or "Upper Canada Village" and "Ontario" very correctly, but it is made in Taiwan or Japan or other parts of the world, when in fact people come into these places with the hope maybe of getting something that is Canadian.

What is your buy-Canadian policy and what is your policy on buying souvenir items with regard to Canadian content?

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Mr. Mitton: Let me talk about the store at Upper Canada Village, because I think I can best explain this in the context of that, and then the little gift shop at Fort Henry subsequently. We attempt to buy largely from craftsmen and artists who are Canadian to the greatest extent we can. I think Mr. Speal mentioned in his opening comments that we spend over \$500,000 a year on crafts that are from the local eastern Ontario area. We really specialize in those at Upper Canada Village and the souvenir aspect is downplayed somewhat.

We have a number of suppliers for things like T-shirts or beer mugs or whatever that will put a crest of Upper Canada Village or Fort Henry on them for us. Where they get the glass or the original T-shirt, we do not concern ourselves with, but they are Canadian suppliers that provide the finished product.

At Fort Henry, there is probably a larger component of souvenir type items than there are quality gift items, but I think there is only one piece of merchandise that we buy outside of Canada. Those are the little figurines of the guardsmen. Ironically enough, they are made in England, I believe. Other than that, they are Canadian suppliers.

Mr. Cousens: Let it just be put on the record that it is something that many people have commented on. They do not think about where your distributors buy the original goods that they go and put the stamp on. If in fact you could have some way of encouraging the all-Canadian products, I think that would be a step in the right direction.

When people come to our country and they are visiting it, I think they would like to see something that is more than just--this is a farce sometimes. I do not think you are trying to endorse it, but they say "made in Canada." Well, that is just because you have five different things and you put them together and that is the definition of manufacturing in Canada. I think I would like to see something where the glass work or the toy or whatever is from raw product here, through all stages of manufacturing. If there can be some kind of reconsideration by the commission on Canadian merchandise, I think that would be a step in the right direction.

Do I have time for one more question?

Mr. Chairman: Okay, one more question, then Mr. Adams is on the list. We have some housekeeping matters also before us. There may be a possibility of a vote in the House.

Mr. Cousens: Okay, I will defer then. I was just going to have some fun with them.

Mr. Adams: Again, I apologize for being away, and I am sure you will stop me if, in fact, the ground has been covered.

When I left, we were talking about the social mission, for want of a better term, and I think Mr. Cousens's question there was a good example. It does seem to me you perform a number of very important functions in your region. Let's call them social, for a moment, and you are loaded with things such as Mr. Cousens suggested. Here you are, you are a certain type of agency, and Mr. Cousens is saying you should now become a vehicle for Canadian-produced goods because you are sort of symbolic in the area and so on. I have some sympathy with that, but I also have sympathy with your having to cope with these sort of social demands.

Now, the auditor looks at you as a business operation. That is his job. He has raised questions about the social thing, which is very difficult to define, it seems to me, in business terms. I was leading at sort of how many jobs you provide compared with the management jobs. That was what I was trying to get at. I wonder if any of you would care to talk about that and the difficulties this important social mission presents for you as a business operation.

Mr. Speal: Well, first of all, our mandate is not to employ people, as I see it, but it is to perform a function for the tourist and recreation area of eastern Ontario. I see that as our mandate. We have, as I said in my opening remarks, some 16 parks, an airfield, a golf course, a bird sanctuary, everything, hopefully, or a variety of things to entice people to come into our area to enjoy Ontario. I know it is not the prerogative of this committee, but any message I have whenever I get a member of parliament around is "Please spend more money in our area to upgrade the facilities so that all Ontarians can be proud of them." But that is another forum.

Within that mandate of providing tourists, I look at what do we do with the parks? What do tourists want? They want facilities. They want showers. They want beaches. They want electricity. They want their grass cut. It is in that area that we provide those services, and we employ people to provide them.

How efficient are our employment standards? In other words, should you have two people cut the grass as opposed to three? That is something, of course, we leave to competent managers to look at, with the help of an outside agency coming in and looking at that, which I think is most important. I think we perform a very good function.

It is in the realm when the auditor comes down and says: "Have a season for July and August. Start it on July 1 and stop it on September 1," where again you have to say, "You cannot employ these interpreters, these people who are living and who are creating something from the first time you put the seed in the ground until you harvest it." You cannot put that seed in the ground and harvest it in July and August. You have to start in May and you do it in October. You are trying to provide a totality.

I do not feel that we can shut it down and perform our function of an attraction to the people of Ontario. If anything, to meet the auditor's remarks, which we take very seriously, we should put more effort in our marketing of trying to get more people in during those periods of May, June and September or October, increasing the people who are coming to the area, not by decreasing the services and starting it in July and stopping it in September. In that area, I feel that we have to do more work. It is going to cost us some money to get money, but I think that is an area.

Again, I think I am correct in saying that the commission views it as a responsibility in carrying out its mandate of a tourist and recreation function, not in allowing it open in May, June and July just so we can employ people so that we can carry out a social function. I do not know if that answers the question.

Mr. Chairman: I wonder if I might ask you on that to go back to the act. I think the members of the committee are content that there may be a social function and there may be a tourist or economic function, but from a public accounts point of view, the problem that we have, whether we agree with these objectives or not, is where your mandate comes from.

In subsection 5(2), the act does contain a certain social policy role, but I think the operative word seems to be that you are given the powers to investigate and inquire into any matter affecting the welfare of the municipality in which you are operating. I wonder if you can comment. Is that a more restrictive role than you may have been taking? If it is, should there be some way of you, through the deputy minister, at least stating up front exactly what that social and economic role is?

I do not want to be too long-winded on this. It seems to me that my concern is that you have shown an increased deficit every year of between 10 per cent and 12 per cent. I want to ask you some questions on that in our winding up, particularly on the number of times you have had to go for funding that was not in your original estimates. Can you tell us exactly where your role is and whether you overstepped your mandate? I guess that is the issue.

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Mr. Adams: Can I interject just one more thing, to load this thing? I have no objection to a social mission. It seems to me that somewhere in your guidelines it does exist. Mr. Speal, you mentioned all those facilities. As a business, you might say, "We'll get rid of half of them," but your mandate is that you run all these facilities. You are stuck with it one way or another.

Another one would be the auditor. If we had set up a committee to create jobs in the region, the auditor could audit that committee. He would simply see if they have created jobs and he would say: "Fine. It cost \$50 million and they created jobs. We compare this with jobs that have been created some other place and it looks as though they're about average cost per job." You understand what I am saying? So I accept—and Noble Villeneuve is back, and I am sure he accepts—a social role, but the auditor then says it has to be explicit. As you know, the auditor can speak for himself, but I think he would say it has to be explicit and you have to sort of justify that side of your work.

Mr. Chairman: I think that gets into the whole role of the act and I think the deputy minister, rather than the commission, should answer that.

Mr. Keenan: I do not have a copy of the act here to refer to, but let me, however, comment. The operative objective statements that I think are relevant here are currently part of our negotiations with the commission on a revised memorandum of understanding. I have them in front of me here. If it is of any value to read the objectives, I can. I would simply observe that I guess I would recharacterize the social objective, if you will, that is being spoken to here as really part of an economic objective in terms of the economy of eastern Ontario. That economy is achieved, in part, through employment that is provided.

Mr. Chairman: I do not want to put you on the spot. Perhaps what I should do is ask you to report back to the committee on this question. Would you review the act, particularly subsection 5(2), and examine whether or not the commission is overstepping its role under the act? In this committee, we are not questioning whether what they are doing is good or bad, but whether there is an overextension and whether there may be a need for an amendment, either to the act or by regulation, which would spell out in fairly specific terms exactly what their social and economic role is, because our role as a committee is not to question whether it is a good objective or a bad objective, but to question whether you are doing what is authorized by parliament and by the act and regulations.

I wonder if you would be kind enough to sit down with the commission, go over your memorandum of understanding, go over the act and report back to the committee. It may well be that through that process you may be able to state your objectives a little bit more clearly. It may prevent the problem that the auditor has, and I am sure the auditor, like myself, enjoys some of the beautiful facilities. I go through the one in the Brockville area and the Gananoque area every summer a couple of times. I am not questioning how beautiful it is and what you are doing, but from our standpoint we want to know what the justification is and whether you are following the act. Maybe you can report back to us on that.

Mr. Keenan: We will do that.

Mr. Adams: It may not be the committee's, and it is not the committee's position to say that, but as an individual member I am in favour of a defined social mission for the commission. I really am. I think it has one. I think the representatives from that area would agree that it has very important "social functions" already and that it performs them very well, but they have to be defined. I think this is the thrust of the auditor.

Mr. Chairman: I wonder if I can ask a few questions concerning a matter that I am somewhat concerned about. It relates again to your objectives. I think if your objectives are not clear, then perhaps people who do not have clear objectives often spend money and then they rationalize it later, but since the 1984-85 year, if you go through your deficit, it has been increasing at a rate of 10 per cent to 12 per cent a year. I guess that troubles me because that is going a lot higher. I wonder where the bottom line is; where that ends.

I am going to ask you to explain that and, at the same time, can you explain why it was necessary for you to go for Management Board warrants. In other words, you had estimated incorrectly in 1984-85 for an extra \$671,000; 1985-86, an extra \$1.12 million, which represented 8.4 per cent of your estimates. In other words, you were out by just under 10 per cent. It got worse in 1986-87, you were off by more than 12 per cent because you had to go back for another \$1,423,300. Then in 1987-88, you were more in keeping with estimates but you still had to go back for just under \$500,000.

My question to you is, what are you doing to improve your budgeting so that Management Board warrants will not be necessary, and what are you doing to ensure that we are not going to be facing a compounding 12 per cent a year deficit from now until the year 2000?

Mr. Keenan: I think it only fair that I address, at least in part, the second part of your question having to do with Management Board orders.

I do not have the specific information in front of me but my response to that would be this: First, there are always the salary awards that occur in each year that are awarded following estimates when the settlements are made and they are normally the subject of a Management Board order for the extent of the impact of salary awards.

Mr. Chairman: I wonder if I could stop you on that. I am afraid I will not let you get away that easily with that. For one thing, we had statements by the Premier (Mr. Peterson) that clearly indicated where I think the government was intending to go in terms of salaries. People knew the writing was on the wall and we were probably talking about four or five per cent. So it could have been estimated.

Second, other agencies have not had overruns in as great a percentage of their budgets as this one has had and they had salary increases in the same percentage as the Ministry of Tourism and Recreation would have had. I am wondering what is unique to this organization that you have these cost overruns continuously.

Mr. Keenan: I was not finished commenting. By budgetary practice, salary awards are normally not incorporated into the estimates at estimates time. They are part of a contingency fund that is part of the Management Board of Cabinet's estimates and they are then awarded out of that in accordance with need. That is the salary part.

The other part is this, and I think it addresses the concern of your interjection. With the attraction sites, which I think it is fair to say over quite a long period of time have suffered a certain benign neglect in terms of capital maintenance money to carry out major repairs, to replace equipment—I am talking now generally of Old Fort William, Huronia and the St. Lawrence Parks Commission—what we try to do if we can, as we approach the last quarter of the year and if there are underexpenditures showing up in other areas of the ministry that present to us an opportunity, if you will, to address and redress some of the problem of capital maintenance, is to transfer some money to the agencies to do things that they could do during that last period. It may be purchase of equipment; it may be some major repairs—that type of thing.

In essence, I guess I would argue that it is a product of management strategy to attempt to alleviate problems that exist there in the only way open to us and that is the reallocation of funds, which, in turn, obviously has to be approved by Management Board of Cabinet and therefore shows up as a Management Board order, because it is a transfer of money from one account to another.

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Mr. Chairman: You are saying you are reallocating it from other areas of the ministry and not within the St. Lawrence Parks Commission.

Mr. Keenan: Yes, that is what I am saying.

Mr. Chairman: So the direction of reallocation that ends up in a Management Board warrant comes then from the deputy minister's office and not from a request by the St. Lawrence Parks Commission?

Mr. Keenan: The request would originate from the commission in terms of things needed to be done and the funds required to do them. Again, as a matter of prudent management, we typically will ask those attractions again—because we know the maintenance problems that exist—if there are any funds available in the ministry that could be reallocated in the last quarter of the year, could they use them? If so, for what? In what order of priority? Then, if indeed there are moneys available, whether they be from within the ministry or other funding opportunities that may arise, we are able to go to Management Board and make a request for that reallocation to take place.

Mr. Chairman: I guess the problem that I have from a management point of view is that if you go to anybody and say, "We have some extra funds, can you use them?" I guarantee that no one will ever say, "No, I cannot use them."

Mr. Keenan: I accept that. However, I think we are, certainly I am, sufficiently familiar, as is the minister, with the conditions that exist in many of the attractions in terms of areas that, if you want to state it quite frankly, are run down at the heels, that need capital maintenance before the problems become more acute: roofs leaking at Old Fort Henry, palisades rotting out at Old Fort William. These are well known and I would not want you to get the impression that this is some kind of Santa Claus grab bag that is going on. These are well-known, identified, supported and, I must say in any reallocation, carefully examined requests, to make sure we are not just tossing money out the door.

Mr. Chairman: I think Mr. Cousens was getting into this earlier, though. It seems to me that if you have a well-thought-out maintenance program or improvement-of-your-assets program, then it does not become necessary to simply do it on an ad hoc year program. It should be built into your budget.

Everyone can accept that beams rot and that termites do invade and other bodies are able to build in a budget for the next 10 years for wear and tear or whatever you want to call it; it just worries me that every year it seems you are going—in the case of 1986-87, for an extra 12 per cent—to Management Board warrants. That just strikes me that there may be a planning problem of some sort within this agency and I would like you to look at it.

Mr. Keenan: I would like to make one other comment in response to that.

I would not want the committee to be under the impression that it is in fact a product of lack of planning, although certainly the committee is undergoing some strategic planning now that is going to assist in the longer-term look at all of these matters. However, I quite agree with your comments but I would point out that there is a missing piece to the argument. That is that certainly during the time that I have been involved in the ministry, the commission each year in its estimates has asked for adequate funds to do these matters.

As you are well aware, one does not always get the money one has asked for—either a commission of the ministry or the Management Board of

Cabinet—and frankly one is caught with the problem of putting two pounds in a one-pound bag. That is the piece in the middle. It is not an issue of not identifying in advance and requesting the funds to do the job; the matter is simply that there are not sufficient funds in the budget to carry it out to the extent necessary. That is why we are in this other catch-up mode.

Mr. Chairman: I do not want to prolong this discussion, but I would appreciate it if you would look at the history of your deficit for this commission and report back to the committee with any plans that you might have. If you are going to plan a deficit of a 12 per cent compounding for the next five years, I would at least like to know that it is a plan, and why you are planning that, so that it does not continually take us by surprise. These things can run away with a budget and can run away with the taxpayers' money.

If you have specific objectives and it is a policy decision that you are going to run higher and higher deficits every year for the next five years, as you have done in the last five years, then I think that should be clearly understood and not be something that simply creeps up on us as it has in the past. I wonder if you would look at that and give a response to the committee which we will in turn ask, probably, the auditor to look at and see whether or not it is reasonable enough.

Mr. Speal: If I may just follow up on that, I do want to make two or three clarifications to the deputy. When I was entrusted to take over this chairmanship in May 1986, there was a great need in this commission to look after its needs. Through the intervention of the deputy and the minister at the time, the funds were increased from next to nothing to \$1.5 million in capital projects. That first year was spent, unfortunately, just catching up on projects that had been committed, namely, the administration building and \$100,000 on the Queen's Gardens, when we gave a gift to Her Majesty the Queen.

We then turn into year two which is the year that we are now talking about. Another \$1.5 million was allocated, but instead of being capital as we see capital projects going for something new, it has had to be used for repairs because our system is bad. The commission has a five-year capital project; it has a five-year capital budget. It has done its planning. We cannot get on with it because of funding restraints. We are now preparing a three- to four-year repair budget, in addition to the capital budget, which we will be presenting it the commission and to the ministry very shortly.

In dealing with some of these minister's warrants that you referred to before Management Board, because of our system of ordering goods and selling goods, if we have a good year and sell more than we have budgeted for, who gets the money? The consolidated revenue fund gets the money. Who gets the sales tax? The Ontario government gets the sales tax. Who gets the bill to have to come running through for a minister's warrant? It is the St. Lawrence Parks Commission. We have to go to the minister and say, "Give us \$100,000 more. Why? So we can go buy some guns"—not real guns, but those tourist attractions—

Interjection: Crafts.

Mr. Speal: Crafts, that is right—"so we can sell more of them."

So it appears that we are going to the ministry on an unbudgeted thing, but in carrying out our mandate and our responsibility, we are not going to say to the tourist, "I'm sorry, we have no sales." So we have also to look, with all due respect, at where it is coming from.

Mr. Chairman: You can appreciate, though, that our role is to look at that and to ask the questions why—

Mr. Speal: Certainly, I do.

Mr. Chairman: —and we are pleased that you are here to explain it to us.

Mr. Adams: Could I just have a point of information? I do not know the act well enough. With these very diverse projects that you have, when you discover that one of them has become very expensive, do you have much freedom in, say, closing it down or putting it on hold for three years or anything like that? Or, in effect, do you really have to keep them going?

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Mr. Speal: Let me put it this way. It is certainly something that we discuss. With 16 parks we are going to discuss it even more which will obviously have other repercussions. But we are dealing with a product and we have to produce. We certainly had a discussion with the marina when the chap we were employing left us and took with him his hoist that takes the boats out. We need another \$100,000 to replace that. We then went into that discussion, do we now provide winter storage at our marina or should we leave that to the private sector? After a discussion, we said we were going to leave it to the private sector, we were not going to commit \$100,000 that we did not have to buy a hoist. Those discussions are taking place all the time.

Mr. Adams: I suppose again, with the local employment situation, the result is a much a greater presence for you than it would be for some private operation.

Mr. Speal: Yes.

Mr. Chairman: I have one last question for you and it spins off nicely from what Mr. Adams has been asking. In this computerized age, do you have on any given day an ability to monitor and see exactly, project by project—you have 16 different parks, but you also probably have I do not know how many separate projects that have their own separate budgets, if you want. If I were to walk in on any given day, could you show me the profit and losses for each and every one of the projects? Do you have an early warning system, in other words, that shows that the marina at such and such a place is starting to take a nosedive and we had better get in there because there is a problem?

Mr. Mitton: The systems allow us to do that at month-end.

Mr. Chairman: Do you do it on a monthly basis? Is there a view of each project on a monthly basis?

Mr. Mitton: Yes, we do it on a monthly basis now. With attendance and revenue, we do it on a biweekly basis.

Mr. Speal: That is given to all the managers and myself.

Mr. Chairman: Has this helped you to troubleshoot in areas where there may be problems?

Mr. Mitton: I have really only seen three weeks of an operating

season personally, but it is my observation that the operational units are small enough and the supervisors in charge of them are close enough that they know if something is a little wonky and they report and we can look into it fairly quickly. Seldom are there surprises in the month-end report.

Mr. Chairman: Thank you. Any further questions from the committee before we thank the deputy minister and the St. Lawrence Parks Commission?

Mr. Villeneuve: Just a short supplementary. Several years ago, the food concession was turned over to the private sector. Could you comment on the financial angle of that now as it was at the time that you turned it over?

Mr. Mitton: Mr. Villeneuve, are you asking for specific numbers?

Mr. Villeneuve: Just a general idea of which direction it has gone, from a financial point of view.

Mr. Speal: Generally, it can be said we are making money. It was not a money-making proposition in the past running food services. Now that we have turned it over, the quality of the food has improved greatly, but also the revenues have improved.

Mr. Villeneuve: Is the golf course, in itself, a money-maker?

Mr. Speal: Very much so.

Mr. Mitton: Very much so.

Mr. Villeneuve: It is a beautiful setup.

Mr. Chairman: I want to thank our guests and the deputy minister for appearing. We look forward to your sending us the additional information that we have requested.

Mr. Keenan: Thank you very much.

Mr. Chairman: There are some other matters that I would like to share and discuss with the committee.

ORGANIZATION

Mr. Chairman: Members of the committee, you will have before you an item which is very important and I hope that all of you will put it on your calendars; namely, Wednesday, November 30, our Provincial Auditor will be bringing down his annual report of good news. Our procedure in this committee is that we will be in a lockup. That is a lockup separate from the press lockup. We will review the auditor's report from 11 a.m. to 1:20 p.m. Lunches will be provided.

Once you are in the room, you are not allowed out, so we hope that you will— If you wish to bring a staff person with you, a researcher or anyone else, those people follow the same rules as you do. Once they are in, they are in until 1:20, when you are allowed out of the room. I hope you will mark that on your calendars.

Miss Nicholas: Mr. Chairman, does this mean that we will not have any meeting prior to 11 o'clock that day, or will we be attempting to have—

Mr. Chairman: No, this is the Wednesday.

Miss Nicholas: Oh, I know why. Wrong committee.

Mr. Chairman: Yes. We never have the auditor's report on a Thursday.

We give this to you in advance because you may want to get hold of researchers and other people who may assist you in any comments you might want to make.

We also have some press clippings distributed by Wendy MacDonald. You have a copy of my speech yesterday to the financial managers. Some of the new members might like to see that because it contains some of the history and evolution of this committee and the directions in which I think public accounts should be going. If you have any comments, suggestions or criticisms, the views that I presented, I presented as chairman of the standing committee on public accounts, not just as an MPP. If anybody wants to crucify me for any of those, he is welcome to do so. I think you will find that it is a fairly factual report.

COMMITTEE ROOMS

Mr. Chairman: The other matter that I want to raise with the members of the committee is that while this circular system does help to create a nonpartisan atmosphere with having the round table and that is what we are trying to achieve in this committee—I have been very supportive and I know a number of members have, as has the standing committee on the Ombudsman—it does pose some problems for us.

If you look at those three distinguished gentlemen at the back, they are staff of the Provincial Auditor's office. It would be very useful for us to have them with a microphone and sitting up here where we can use them. If it is your pleasure, I would like to send a letter through our clerk to the standing committee on the Legislative Assembly, suggesting that another table be put behind here with microphone hookup, in the event that perhaps our Provincial Auditor wishes to have his staff with him.

I think it would also be useful in the estimates process where ministers might want to have some of their staff sitting behind them and closer to them rather than away in the audience if they are answering questions and things like that. It might serve not just our committee but other committees.

Does anyone agree with that suggestion? It simply means taking out some of these chairs and putting in another table and some chairs, which would be used at some times and not others.

Mr. J. B. Nixon: Mr. Chairman, I agree with your idea. I think it is a good suggestion. The only concern I have—and I hate getting into this, it sounds petty—is that the access back there is difficult with an octagonal setting. I have just always supported the square setting so that people can move. That is all.

Mr. Chairman: The access where?

Mr. J. B. Nixon: To the back from there would be—

Mr. Chairman: You mean for TV people —

Mr. J. B. Nixon: No, no. For people walking back and forth, that is all.

Mr. Chairman: Yes.

Miss Nicholas: On that side.

Mr. Chairman: I do not know how we solve that problem short of breaking up the wall or something or going to the square table.

Mr. J. B. Nixon: I am not going to argue, but it is just a suggestion.

Mr. Chairman: Maybe we can recommend that only nonpartisan committees stay in the Amethyst Room and that all others then be allocated to the other committee rooms.

Ms. Collins: Mr. Chairman, is there not a committee that is looking at that right now? Is it the Legislative Assembly committee?

Mr. Chairman: That was my proposal though, that we write to them and that we suggest that an extra table be put back here with microphones.

Ms. Collins: Okay.

Mr. Chairman: We cannot solve this ourselves. They are looking at it, but they are asking for feedback.

We are going to circulate a questionnaire and if any of you have any other comments about this setup and that kind of thing, send them to the clerk and Doug will send them directly, not necessarily through me, to the Legislative Assembly committee.

SKYDOME

Mr. Chairman: There are also some background papers which are being distributed on the Stadium Corp. of Ontario Ltd. project. You had a briefing last week in camera on it. It is a very complicated matter, as you are well aware. We hope that despite the fact that you have federal elections and all other kinds of things happening in here, you might have an opportunity to read through some of this research. My suspicion is that we are not going to cover it in one morning, but we can always, at your direction, ask that they reappear during the recess.

Ms. MacDonald: Could I make a comment to link it with the paper you received last week? Those of you who have had an opportunity to go through it might have noticed that there was no appendix C in the paper on the description of the individual members of the consortium. That is one of the papers that is now being handed out to you. The information in that is basically when they joined, who their representative is on the consortium, if one has been named, what the supplier arrangements are that have been reached to date and also, because this was a concern of the committees in 1985 and 1986, the relationships between the consortium in terms of ownership linkages and interlocking directorates.

The other paper, the one that summarizes the stadium agreements, basically compiles a four-inch-high stack of paper into some very sort of summary kinds of information. Referring back to the paper you got last week,

it provides a more detailed and explicit background on the section on equity arrangements, on the sponsorship package of benefits and on the supplier arrangements. It would probably be best if you skipped those in the paper and went over the agreement instead.

Mr. Chairman: May I caution you that these papers are public only on the time we are questioning the dome? I mean it is the Stadium Corp. of Ontario Ltd. It is not our habit of providing any people appearing before this committee with advanced prep notes on what they are going to be asked.

May I also suggest that if any of you have any concerns or interests—we are going to have the problem that we could cover five days just with this stuff—if any of you have some feelings as to any particular directions that perhaps we might want to take in this one session next week, I would appreciate hearing from you. Certainly perhaps if some of us would like to meet maybe 15 minutes before and discuss which directions we want to go in, we might have a more focused set of hearings on this, at least in the first session. It may well be that we may want to confine ourselves at the first meeting to certain topics and simply accept that we cannot look at the world.

I am worried that because it is so complex and because there are so many issues, we might have a scattergun approach and not achieve as much as we would if we try to be a little bit more focused and decide exactly what we can achieve in the two hours or so that we are here. If any of you want any help from Ms. MacDonald, she is available to all members of this committee. If there is anything the clerk, myself or Doug Archer can do before this set of hearings next week, please do not hesitate to give us a call.

We stand adjourned until 10 o'clock on Thursday, November 24.

Ms. MacDonald: Mr. Chairman, if I might, just one final comment: One piece of information that I did also receive from the SkyDome was its 10-year operating budget, its more recent one. I mentioned last week that the information in your paper represents a chunk out of the middle of that, let's say, year five. That information has never been made public and they consider it to be commercially confidential. If the committee considers it useful, I could circulate it to the committee on that understanding because the hearing itself, I assume, will be public and there will likely be media at it. A decision will have to be made as to how to treat that information.

Mr. Chairman: I would prefer that we deal with that next week and that this kind of information not be circulated at this point in time, if you do not mind. I see nods from other people. I think it is important that we not put crown agencies at a disadvantage commercially in any of our inquiries. I would certainly want to hear their comments before we in any way used any of that material publicly and give them an opportunity to argue, as they probably will, that it should not be public.

Ms. MacDonald: They will likely speak to it anyway. I am sure they will give the committee an update on their expectations.

Mr. Chairman: Often we can use information like that in camera as a background for our own questions without making them public documents.

The committee adjourned at 11:54 a.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87
STADIUM CORP. OF ONTARIO LTD.

THURSDAY, NOVEMBER 24, 1988



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Adams, Peter (Peterborough L)

Ballinger, William G. (Durham-York L)

Collins, Shirley (Wentworth East L)

Cousens, W. Donald (Markham PC)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Nicholas, Cindy (Scarborough Centre L)

Nixon, J. Bradford (York Mills L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. Adams

Kormos, Peter (Welland-Thorold NDP) for Miss Martel

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

Witnesses:

From Stadium Corp. of Ontario:

Magwood, Charles, President and Chief Executive Officer

MacArthur, Jamie, Vice-President, Finance

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, November 24, 1988

The committee met at 10:10 a.m. in room 151.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1986-87
(continued)

Mr. Chairman: We have one substitution on the committee today. Peter Kormos will be sitting in for Shelley Martel, who is out of town.

This committee is sitting this morning to deal with an ongoing investigation into the SkyDome. For the sake of viewers and new members of the committee, I would like to outline very briefly some of the history of this inquiry and suggest what areas we may wish to explore with our guests.

In 1984 I moved a motion in this committee for an inquiry into the announced domed stadium in Ontario. This was defeated. In 1985 a similar motion carried. In 1985 and 1986 the standing committee on public accounts conducted a major investigation into the financing of Toronto's domed stadium project, now known as the SkyDome. In December 1985 the committee issued an interim report containing three recommendations and a number of concerns.

The recommendations were as follows: that the province's contribution to the project not exceed \$30 million, as announced by Premier Davis on January 17, 1985; secondly, that the two breweries not originally participating in the consortium, Carling O'Keefe and Molson Ontario Breweries be accommodated as participants in the financing of the stadium and the committee be informed as to the nature of the arrangement; and lastly, that the Stadium Corp. of Ontario Ltd., the provincial crown corporation established to construct and operate the project, provide the committee with information concerning the design, construction, the competition and its winner, the market value of advertising benefits that members of the private sector consortium helping to finance the project would receive in return for their funding and the new or amended financing arrangement for the stadium, once finalized.

The committee's various concerns were set out in the interim report. Early in 1986 the committee received some of the information requested from the Stadium Corp. and conducted further investigations. It reported on those inquiries in its 1985 report and the 1986 report, which was tabled early in 1987.

At that time, the committee reiterated its recommendation that provincial funding not exceed the \$30 million. As well, the committee called for the Stadium Corp. to continue to report to this committee on any new or amended financing arrangements for the stadium. The committee also commended the corporation for having enlisted new corporate sponsors and recommended that it search for even further private sector funding.

From what I have just said, I think you will realize that many of the committee's recommendations have been fulfilled. The committee was informed about the design construction competition and the majority of the committee felt that the competition had been fairly conducted. The province's funding to date has not exceeded the \$30 million advanced to the Stadium Corp. in March 1985. Two breweries have been accommodated and additional private sector funding has been found.

There are a number of the committee's concerns set out in our interim report, however, that are still current, particularly in light of the expansion in the scope and scale of the project. The increases in costs and the changes in financing and planning equity arrangements would merit consideration in terms of long-term financial impact on the province, and I think we will want to look into those areas.

Another area of concern to the committee in 1985 and 1986 was equity, openness and the financial implications of the arrangements with the consortium of private sector investors' assisting in the financing of the SkyDome. These concerns, I think, remain current. The private sector's involvement in the SkyDome is one of the features which make it a one-of-a-kind type of financial arrangement in terms of domed stadiums. The investment of \$5 million each by 28 firms in exchange for certain benefits has been praised by some as a unique example of private-public sector co-operation and a valuable means of injecting business knowhow into so large a project, as well as injecting business funds rather than taxpayers' funds into a project.

However, on the other side, it has been criticized for its closed selection process and its exclusion of other firms competing with consortium members. Concern has also been expressed about the potential for conflicts of interest in business dealings between the Stadium Corp. of Ontario and the consortium members and the value of the benefits received by members in relation to their \$5-million investment.

Members of the committee, you are free, of course, to ask about or to explore any direction you wish. I doubt that this one session will be inclusive enough to deal with all of the issues we will want to look at. However, you may want to focus on a few key points arising from our earlier investigations.

First, I think you will want to look at the need for a financial update and the most recent financing arrangements for the corporation. You will want to look at what consortium members actually obtained for their \$5 million and you will probably want to question whether the package of benefits is undervalued or is valued realistically. You will want to note whether the 99-year contract is reasonable or if some other arrangement, such as a 10-year contract with a review based on the profits accrued to the consortium members, the financial state of the corporation, would have been more reasonable.

Those are just a few of the questions which I think you will want to explore. I would remind you that there is a matter before the courts at the moment and therefore I will consider any objection that our guests might have at any time if they feel that any of the questions will in any way act in a sub judice manner; in other words, whether our questioning might in any way affect the court case. I think we have to be sensitive to that.

I will now call our witnesses. Charles Magwood is well known to members who have served on the committee for a while. Mr. Magwood is president and chief executive officer of the Stadium Corp. of Ontario. Mr. Magwood, would you kindly come forward and take a seat. I realize this is a difficult day for you because you will also be involved in another hearing of sorts this afternoon, and we appreciate your coming. James MacArthur is the vice-president of finance. You may want to direct many of your very specific financial questions to him.

On my immediate left are Doug Archer, our Provincial Auditor, Doug Arnott, the clerk of the committee, and Wendy MacDonald, our researcher, who

has briefed the committee and provided it with a considerable amount of research.

Mr. Magwood, do you have any opening statement that you wish to make, in order to update members, based on some of the questions and concerns the committee had in its previous hearings?

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STADIUM CORP. OF ONTARIO LTD.

Mr. Magwood: It is a pleasure to be back. It has been two and a half years since we were here last; I think it was February 20. That was one of probably five different sessions that dealt with different matters. Most of the emphasis at that time, as I recall it, dealt with the competition itself, as you have mentioned, the fairness of that competition, the winners and a complete review of the contracts. In fact, there was a subsequent session where some of the competitors themselves came forward and expressed their own concerns. I think those were dealt with.

We also reviewed, as I recall it, in fairly general terms certain budgets and costs. At that point in time, those were really estimates only. Since then, quite a bit has happened. If you could bear with me for a moment, I would like to track fairly quickly through the history, because it may save some questions later on. Basically, the point of this exercise will be to take you from a project that was \$225 million in February 1986 to a project which today is some \$427 million and explain to you, in my own words as best I can, exactly what has happened, how the project has grown and where those costs have come from.

At this point in time two and a half years later, if you like, we have only 190 days left to go. We are all two and a half years older, but inside some of us are a whole lot older than that. We have seen and endured a lot. We have a lot to do in the next six months and we are opening, as you know, on June 3.

The project has not only increased significantly in cost, it has increased in size and scope. We now have added some 600,000 square feet of gross leasable area of various components, which I will tell you a little bit about. Virtually all of those things have been added after the building started its construction. We are into what is called the design-build process. Rather than the luxury of completing plans in totality and going forward with a single building permit to build a building like an office tower, in this case, in the desire to press forward and have this project completed as soon as possible, we have actually been designing it as we build it.

The competition that was undertaken and approved really dealt with concept, with a certain level of drawings, but not to the state of working drawings for which permits can be issued. At this time, I believe we have something like 76 building permits and they are still coming. It comes piece by piece. As it is being built, these various things have been added and, as I say, we are some 600,000 square feet of gross leasable area in excess of where we were two and a half years ago.

Dealing with some specific items and therefore where these costs have come from, putting them perhaps in chronological order, first we had an Ontario Municipal Board hearing. When we were here in February 1986, at that point in time the site was not zoned, there was no official plan and no

permits were issued. Through the summer of 1986, there was a very lengthy hearing with the Ontario Municipal Board. At that time, they dealt with official plans for virtually all the railway lands as well as the precinct in which the stadium is located.

As a result of that, we succeeded in getting our zoning in the fall of 1986. Construction actually started, though, with respect to certain elements and preparing the land, through the summer of 1986. That included demolishing buildings and rebuilding a new pumping station for Metropolitan Toronto.

The result of those hearings was the first thing that added certain premium costs to us in that what we had were costs that related to the hearings themselves. We had costs that related to a compression of certain time elements, because we were moving to open the project in the spring of 1989 and, notwithstanding the delays from the OMB, we intended to meet that.

So there were certain negotiated elements that were into the equation, if you like, at that point in time, and something in the order of \$6.3 million was added to the first costs of the project through the summer months of 1986 as a result of those hearings one way or the other. There was certain winter work that came into that. There were certain insurance premiums that had to be added to the project. That is all part of that equation.

Second, the project, like the Toronto Sun, was the little project that grew and a lot of that growth took place really in the summer and in the early spring of 1987. First, a hotel has been added. At this point in time, it is about 350,000 square feet, it has 350 rooms and its cost in the current budgets, which I know you have, is shown at \$66.81 million. Second, there has been a significant amount of foodservice area added in the form of bars, restaurants and major kitchens that are all part of that one kitchen.

The major preparation kitchen for all the bars and restaurants in SkyDome is something in the order of 17,000 square feet, almost half an acre, just to give you an idea of the number of potatoes that will have to be scrubbed. What that has added is about 115,000 square feet of restaurant, foodservice and preparatory areas. The costs related to that element in the numbers that we have given you are in the area of \$8.5 million.

Third, there has been a McDonald's restaurant added since we met. This is a two-level restaurant of about 14,500 square feet, supposedly the largest in North America, and that at a cost to us of something in the order of \$3.5 million to build the shell. We will get to this later, but it is for McDonald's to finish out and complete the interior finishings of that restaurant. All we are doing is providing the shell. Similarly, with respect to the food concessions that are inside the project, it is our responsibility simply to deliver to them the floor space and they are actually building out all the food units that are inside the building itself.

Next, we added a health club. It is in the order of 36,000 square feet and is built at the northwest corner of the project. The cost to us of building that area is \$5.54 million. We have added what we call a sports entertainment area, which is adjacent to the CN Tower, integrated to the CN Tower. There have been a number of physical design changes to ensure that the connection to the tower is sacred, as well as connection to the convention centre. There has been a physical upgrade in design in that particular area. The cost of those particular elements is about \$2.2 million.

There have been many other things which have been added in the stadium

itself by way of what we call upgrades of various types. These include improved advertising opportunities. It includes the addition of certain safety measures like handrails, elevators, escalators, provision for handicapped. We have developed a concept which we call a SkyTent, which is developing a room within the overall stadium within which we can have smaller modes, such as smaller concerts, tennis, wrestling and so on. There have been elements dealing with acoustics to improve the sound systems, upgraded level of finish, including treatment of the roof, etc.

Another item deals with what we call infrastructure. When that is referred to in the summaries of what you have, the infrastructure is basically those elements that are done by others outside of the stadium itself that provide for access to the stadium and basically an environment around it. That would include the park systems, roads, services, Spadina Avenue bridge, etc. Since we met last, there have been a number of additions and improvements in all of that area, from park systems through to Spadina itself. We encountered some problems with compaction of soil and there were premium costs that have had to go into the project over and above what was initially anticipated.

We have had, also because of the growth of the stadium, other elements that have increased at the same time. Legal expenses are significantly higher. Architect and design fees go with these other aspects of the growth of the project and they are significantly higher than originally anticipated. As part of the expansion of our SkyBoxes and club seats, we have had to spend significantly more dollars in order to actually have those physically there.

Insurance costs are higher. Everyone who is out there is experiencing that. Finally, as a result of the labour strikes over the course of the last summer, we have had to compress further our schedule and negotiate and undertake with Ellis-Don, Dominion Bridge and all the subtrades a settlement which would give us basically the same opening date as we had before. That is shown in your material as a settlement of \$12 million.

The result of all of that is to show, on the capital side, a project that is not only bigger, it is a lot more expensive. That is a simple explanation. We can get into whatever detail you want on that, as to how we got today to \$427 million.

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On the other side, which is, how we are going to pay for it, where the money is going to come from, there have been significant changes as well since we met last time. At that point in time, I believe we had 13 partners, each investing \$5 million. We have added a number of partners; we have moved from 13 investors at \$5 million each. As you know, at that point in time there was one brewery, which was Labatt's, and at that time Labatt's was a partner, not outside of the partnership as it is today, but as an investor.

We also anticipate an additional four members; on the financing summaries that you have we show \$85 million as coming from consortium members. That number has now increased. We have 25 consortium members plus three breweries for a total of 28 participants; we are anticipating one additional one, taking us to 29, and the pro formas show \$145 million coming from the private source. So it has increased from \$85 million to \$145 million, which is up \$60 million since we met last.

Second, on the capital receipt side, we had indicated previously our SkyBoxes, which are these comfortable homes for people who want a better

environment from which to watch the ball game; we have increased from 73 to 161 boxes. We anticipated an average of \$50,000 per year per SkyBox, with basically the first and last year prepaid, so that we are anticipating capital paid in front of \$100,000 per box times 73 boxes, which equals \$7.3 million.

At this point we have revised that program, not only by increasing the number of SkyBoxes to 161, but also by increasing the average payments for those who are taking these boxes. Investing in a box for 10 years now costs \$100,000, \$150,000 or \$225,000 per year. That is the shell only. Then they must pay for the finishing of it and they must pay for the tickets.

Mr. Chairman: May I just ask a question on that, as a follow-up from some of the original concerns of the members? It was originally your intention to sell the boxes in perpetuity, was it not, the same way that you would sell a condominium, and now essentially what you are doing is renting them for 10 years. Is that correct?

Mr. Magwood: Yes. We went through various scenarios and, frankly, I do not recall exactly where our thinking was in February 1986. You might be right that that is where we were at that point in time, but these are 10-year leases.

Mr. Chairman: That is another recommendation of the committee that you have accepted.

Mr. Magwood: That is correct, but basically we convert these into shorter-term arrangements where renewals are done at the then-current market.

The result of the SkyBox program has been successful in that we have sold to date 147 of 161 boxes. People were given the option of prepaying in total the 10-year program or of simply prepaying the first year. By way of prepayment, we have received from the SkyBox program right now \$37.7 million in cash. That is up from \$7.2 million. We are approximately \$30 million ahead of the game and that money from the SkyBox program is in the bank right now.

The third change from where we were before deals with club seats. When we met last we were talking about 5,000 club seats, I believe, and an initiation fee of \$2,000 per club seat member and capital; that would therefore be something like \$10 million to be applied against the cost of the project.

We have changed that program and increased our box arrangements to \$2,000 and \$4,000 each. There are 5,788 club seats. We received over 12,000 subscriptions for those seats. We conducted a lottery and the result is that we have realized something like \$20 million from the club seats; so we are \$10 million ahead of where we anticipated we would be with respect to the club seat program. Between those two programs, the club seats and the boxes, we now have something just under \$60 million that we have received in capital.

The province's contribution, as you mentioned at the beginning, is still at \$30 million. The contribution from Metropolitan Toronto, which is payable over a five-year period, is still \$30 million and the aggregate, then, of all of these various aspects that are referred to is something in the order of \$270 million against the current projected cost of the project of \$427 million.

At this point I also might say that what is built out on the site is about \$250 million worth of value. With the exception of a bank line of credit that was activated only at the end of last week, the project has been paid with cash to date.

What has happened to the operating revenue forecast as a result of all these various changes? What does it all mean? The simple conclusion is that operating revenues have moved in the last two and a half years from a gross of something like \$22 million to a gross today of something like \$45 million. Expenses have increased from \$13 million to \$18 million, and the net operating income that is available for accounting purposes has moved from \$9.2 million, which is where we were in March 1986, to something like \$26.8 million today.

To convert that into cash flow, which is the stuff that you walk home with in your jeans at the end of the day—and this is really after debt service but before depreciation and before principal repayment of debt—the change in the position is one where we had previously estimated \$4.4 million on the smaller scheme and today it is just under \$12 million. So the cash flow has almost tripled in terms of the repayment of the debt, and we will have a debt something in the order of \$150 million on our opening day. That debt on our estimates will be fully retired in eight years, which is not dissimilar, really, to where we were when the project was a smaller project.

That is a rundown of the history as it has been.

Mr. Chairman: Thank you. Mr. MacArthur, did you have any comments to add?

Mr. MacArthur: No, I did not.

Mr. Chairman: Mr. Archer, do you have any comments or questions?

Mr. Archer: No, I do not, Mr. Chairman.

Mr. J. B. Nixon: Gentlemen, I will direct my questions to both of you, because I am not sure who has the greater expertise in any particular area. My first question is a very general question. From that, I have a series of specific questions. It relates to the formation of the principal stadium agreement.

I am just wondering if you could outline the type of negotiations that took place, and I do not mean whether they were fast or slow, but what led up to the construction of this particular stadium agreement? It is a rather unique creation, which is probably appropriate because it is a unique project, but none the less I would like to know something about the discussions that took place.

Mr. Magwood: I will try. I am not sure I am going to be able to answer it exactly as you want, but as you may know, this is a lengthy document that has three parties involved with it. It is dated May 8, 1986, so it was actually executed and dated after we met with your public accounts committee.

The parties involved with it were the Stadium Corp. of Ontario, which had been, if you like, the proponent of the project well before this, as well as a company called Dome Consortium Investments Inc., which is a new corporation formed under the Business Corporations Act of Ontario, 1982. That has as investors the various consortium members, so that as they come in, they would purchase shares within that vehicle. That is a single vehicle, if you like, which stands for the consortium members.

In addition to that, as new consortium members have been added they themselves execute the principal stadium agreement, so what we have gone through is actually five amendments to that agreement, resulting in a fairly

thick binder as different consortium members have been added over time. By doing that and by executing it, each one of them individually becomes bound by its terms. That is a starting point.

The provisions of it and what was behind it is that we are represented at the Stadium Corp. by Fasken and Calvin, barristers and solicitors. Dome Consortium is represented by Tory Tory Deslauriers and Binnington, barristers, and therefore it is a highly legalistic document that involves lawyers and lots of time and lots of meetings. It deals with the project as it is structured, it contemplates where the money is going to come from, it contemplates—and I am sure your other questions will come to this—the cash deficiency arrangements.

It deals with the rights that consortium members enjoy as a result of their participation and investment. It describes in each specific case how this arrangement works in so far as first right of refusal for advertising rights is concerned. It deals with what we call preferred supplier status, the particular rights each individual company—for example, Coca-Cola and McDonald's—would enjoy for their investment. It describes how disputes are to be resolved. There is an arbitration mechanism within this, there are notice provisions and there are a number of typical boiler-type elements to it.

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Mr. J. B. Nixon: As I understand it, the agreement essentially disappears and is replaced by a partnership once the outstanding bank liability is below \$50 million, or am I not reading that right?

Mr. Magwood: No, you are correct, but let me try to express it another way. The Stadium Corp. is actually building this project. Between its commencement and the opening day—just use that as a date instead of the \$50 million for a second—the Stadium Corp. would build the building, would execute the contracts, etc. As the consortium members became part of the arrangement during the construction phase, they would provide their moneys on a noninterest basis to the project in order to fund its construction. Once the building is complete, on its opening date, then it gets turned over to a partnership.

That partnership is, if you like, the marrying of the odd couple, which is the private-public combination; that is, Dome Consortium Investments Inc. on the private side and the Stadium Corp. on the public side. The \$50-million figure you refer to is a threshold which, at the point when it was first signed, was indicated to be more than sufficient to cover off anticipated bank debt. In fact, I think it was anticipated at something like \$27 million. In subsequent drafts of this agreement, as we have gone through it, what has happened is that \$50-million threshold has had to change as the project has grown. At this time, it is something in the order of \$150 million.

Mr. J. B. Nixon: That is the debt you were referring to that you expect to be retired within eight years.

Mr. Magwood: Correct.

Mr. J. B. Nixon: Just so I am clear, is the provision in the agreement that the ownership is transferred on opening day or upon retirement of the debt?

Mr. Magwood: The provision is that some time prior to the opening

date—I think it is even expressed as the day before, and in fact it is more likely now that it will happen in the month of January or February 1989, just a few months from now—it will be transferred and rolled into the big partnership. The figure of \$50 million has become academic, as has any other number at this point. The fact is that everyone is committed to it now, everyone is into it and everyone is very anxious for the full partnership to assume its full responsibilities.

Mr. J. B. Nixon: You may be aware that I am a new member of the committee. It was not before I began to participate in this committee's hearings that I realized the substantial interest of the province. The success of this project relates, as I see it, to the deficiency payment calls that might be made. I am asking you to offer your opinion on what our interest might be. Is that not what it is all about?

Mr. Magwood: Yes, I think a very legitimate concern which has been expressed and should continue to be expressed is, what is the exposure of the province in this project and what has been the effect of that exposure, over time, given the changing nature of the project? At the very beginning, the agreements were structured such that should there be a cash-flow deficiency—i.e., should the cash generated from the project not be sufficient to cover off its obligations in the form of expenses and debt-service costs—it would be the liability of the Stadium Corp., the province, to fund that deficiency and the private consortium members would have the right to pick up their proportionate share of that deficiency on a year-to-year basis; that there was a visitation period contemplated in the documents every third year and that should consortium members not have elected to come on side in the third year, their interest and ownership would be diluted accordingly.

Really what has happened over time—and we will deal with this later—is that as a result of these many other commercial elements that have been added to the project, the possibility of cash-flow deficiency has really become a purely academic proposal.

Mr. J. B. Nixon: Why is that? At first blush, I would say, "Jeez, you are adding this and you are adding that; that increases our exposure." You tell me why that is not the case.

Mr. Magwood: The main reason for that is that as the project has become more commercial, it has tenants in it who are obligated to pay rent, who have basic obligations in a downtown piece of real estate and who are not hanging completely on the success or attendance of the events happening within the facility.

A second comment would be that as a result of this growth, the coverage, as we call it, for debt service—i.e., the multiplier which is coming in compared to the obligation going out—is at the point where we have something in excess of a 2-to-1 ratio. As long as this project is at least 50 per cent as good as what everyone quite conservatively has estimated, there should be no call or need for a call to fund that deficiency.

Mr. J. B. Nixon: Are you using the 50 per cent successful level as the assumption for determining an eight-year repayment schedule for the bank loan?

Mr. Magwood: No, what we are using are our current estimates of what we anticipate the project will generate based on the commitments that are now in place.

Mr. J. B. Nixon: These being the commitments from people like the Toronto Blue Jays?

Mr. Magwood: That is correct. In going through the whole thing, there is a whole series of assumptions that deal with picking the stadium itself. Taking the Blue Jays, for example, we are using ticket prices which are two years old, we are using attendance figures of 2.5 million people per year for the Blue Jays whereas they themselves are anticipating something like 3.2 million, etc.

Each and every assumption that we have dealt with to come to today's picture has some background for it and some level of safety. We have certainly been—although that could be criticized—fairly conservative in terms of projections. Certainly, from the point of view of our bank and the financial institutions that have been very much a part of the development of this thing, they are totally on side and accept these numbers for purposes of the banking arrangements we have undertaken.

Mr. J. B. Nixon: There is just one final area I would like to cover, and that relates to management control of SkyDome once it is up and operating. My understanding is that the agreements contemplate a very large number of persons sitting on the board of directors, in the order of at least, I would guess, 26 or 30. That is an unwieldy board, other than for perhaps annual meetings or quarterly meetings. I assume that the people who will really be involved with the management and direction and control of SkyDome will be the employees, the full-time management. It concerns me as to who is going to be involved in the hiring and the development and so on. Will we just see a transfer of the existing organizational structure over to SkyDome? What is going to happen? Are there any plans?

Mr. Magwood: All right. Three questions, if you like. One is, by way of answer, we have a huge board. You might call it unwieldy already. We have had to learn to work within that. The consortium already, with its board, has 28 members plus. If you like, there is a board of 30. The Stadium Corp. has a board that was just appointed, 12 I believe. Combined, for starters we are used to having, before consultants and other assistants, some 42, so we require the largest boardroom already.

That will grow, because it is provided within the documentation that once the partnership is formed, which is what happens early next year, the number of representatives on the board will always be such that the Stadium Corp., i.e., the province, controls the votes and must have two more members, as a minimum, than the consortium. Well, that quickly takes us to 55, given that the breweries are not voting participants. It is unwieldy perhaps, but in fact it does work quite well.

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The second thing is that there is contemplation here for an executive committee, and I believe the executive committee is to be made up of seven. That really is the group—

Mr. J. B. Nixon: —that controls the membership.

Mr. Magwood: Within the executive committee it is the same thing. Once again, no matter how many consortium members are brought in at this point, based on the investment, it is 70-30; i.e., 70 per cent of the money is coming from the private side, 30 per cent from the public side, but the public

will always have 51 per cent of the votes, whether that is in the management committee or within the executive committee. The last part of the answer, if you like, is that in terms of just running this thing and getting it going—

Mr. J. B. Nixon: I was not being critical. I think you are doing an excellent job. I just wonder if you are going to make a permanent career out of this.

Mr. Magwood: No, I understand. How it is going to happen after the fact, I cannot speculate. At this point, what has to happen is that the current management hires the staff, hires the people and has to make the day-to-day decisions, and the policy is really the matter that is dealt with by the larger boards.

M. Pouliot: Merci. Good morning, gentlemen.

Mr. Magwood: Good morning. En français?

M. Pouliot: Je peux commencer en espagnol ou en français, si ça vous convient. D'accord.

I want to wish you well. The last time I had a chance to examine something that was a bit similar in terms of a cost overrun and dreams literally coming true was with Jean Drapeau in Montreal, but your health is very, very well. You carry yourself well. The analogy stops there.

On the \$30 million of taxpayers' money and contributions you have mentioned, was there any interest accrued or accumulated on that or it is just a plain \$30 million?

Mr. Magwood: It is basically a \$30-million contribution without interest, and for that the province is enjoying equity. As a matter of interest, the province's determination of equity, i.e., ownership, is a function of \$60 million. So the province is the beneficiary of the \$30 million from Metropolitan Toronto, as well, in establishing the fraction, the numerator of which is \$60 million and the denominator of which is \$60 million plus the \$145 million from the consortium.

Mr. Pouliot: I do not want to prolong this, but simply put, \$30 million was transferred from a noninterest-bearing account to an interest-bearing mechanism, another account, and then you were to draw certain sums as you went along into your project. That money was earning interest, sir. Was it not?

Mr. Magwood: Yes, when it was in the bank and not used, it was earning interest.

Mr. Pouliot: The provincial contribution, when all is said and done, would be closer to \$31.5 million than \$30 million.

Mr. Magwood: Correct.

Mr. Pouliot: Okay, so in other words, the taxpayers of Ontario contributed \$31.5 million.

Mr. Magwood: Okay.

Mr. Pouliot: In the event that there should be some difficulties

with making a profit, should you fail to make a profit, the province says, "We will guarantee a loan capacity to the tune of \$150 million." Right? You can go to chartered banks, borrow \$150 million and the province will stand behind that.

Mr. Magwood: The loan from the bank is to the Stadium Corp., that is correct, and it is backed by the asset itself, into which \$145 million of private money has been put as well.

Mr. Pouliot: Are the people of Ontario not the underwriters? Is the province not underwriting loan guarantees to the tune of \$150 million?

Mr. Magwood: No, the Stadium Corp. is a company on its own. It has a significant asset and it is the one that is providing the covenant. The only way, if you like, that there is any recall, to put it in the way you have styled it, to the taxpayers, would be in the event that virtually everyone walks from the project; i.e., if the consortium elected not to put up any money, and to leave it. At this point they might, but as I say, they already have \$145 million in it, so it is not likely that is going to happen.

Mr. Pouliot: No, what lies in the future usually goes for a long, long time. Projects of this nature do not always make profits. If you go to the major cities—and I am sure you have; you are probably a world traveller—they do not experience that many profits. What I am asking is, if you tap your loan capacity to the extent of \$150 million and you fail to show a profit, are the taxpayers of Ontario left holding the bag because they are the underwriters? That is, simply put, what I am asking you.

Mr. Magwood: That is the case only if the private corporations, of which there are 28, elect not to put any money in to keep the project whole.

Mr. Pouliot: Elect? Do they have to?

Mr. Magwood: No, they do not have to. They could elect not to and have their interest dissipated totally.

Mr. Pouliot: You are certainly a mover and shaker, a person of vision. The entrepreneurial spirit is alive and well.

Mr. Ballinger: Exactly like you.

Mr. Pouliot: Mr. Chairman, will you please enforce order? My good friend Mr. Ballinger is rather excited. He has a hormone imbalance this morning, and he is rather agitated.

Mr. Magwood, you stated that the project, when it was originated, started at \$225 million, and because of cost overruns, coupled with what is really a larger project, it has not quite doubled, but in time maybe we will get there, to \$427 million; from \$225 million to \$427 million from 1986 to 1988. Even this government does not hire civil servants at that rate, sir. That is quite an escalation in price, notwithstanding that you had a legal work stoppage, notwithstanding the fact that there are cost overruns that are automatically built in if you fail to meet the deadline, etc. It is a staggering amount.

Did you yourself know when you presented the province with your original concept of what the SkyDome was going to be that you would go from a tombola to a full-fledged circus? Surely a person like yourself knew that when you

said to the province, "We're going to enter a partnership on this here," and the province said, "Well, it's going to be a collective effort on this project." You went to Metropolitan Toronto and did the same thing.

It is just a scenario—and tell me where I go wrong—but a person like yourself surely had more vision than just the shell that was the SkyDome. You needed public partnership, public participation, and once you ensured that, once this was secure, then you went on to the McDonalds of this world and the 350 hotel rooms. Surely it was part of your original concept, was it not?

Mr. Magwood: No, it was not. When I first got involved in September 1985, actually I knew nothing about what it was going to be. In fact, the selection of the successful proponent happened in the early spring of 1986 and the development and growth of the project happened, really starting probably in late summer of 1986 through till spring of 1987. That is when these various elements happened. It was only when we looked at opportunity because of where it is relative to the CN Tower—it is an urban building, it is downtown—and it was really in response also to the request by the city.

Steve McLaughlin, who was the planning commissioner at the time, said "It's short, fat and ugly and not responsive to its urban environment." In some ways, there was some truth in that. I think we who were involved in the project looked at—since it was going to be there, we were told, "This is where the project is," it was not going to move—attempting to improve it to make it more responsive to where it is. Really, that led to the development of these other things so that at the people level of the project it was more like other buildings and you were not faced with impersonal concrete, if you like, you were met with some form of animation.

That was some of what happened in here and it was not myself—it was really part of the whole design team that looked at this and considered this part of our mandate.

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Mr. Pouliot: I have no quarrel with the partnership because in good times taxpayers are not part of the partnership, in a business sense. The contribution of the taxpayers of Ontario, \$30 million, is a lot of money, certainly where I live, because it is a total heritage fund for one year for all of the north. Mr. Magwood, you can relate to that, one small thing compared to the whole of the north. For us up north, \$30 million is a lot of money.

We are getting value for money, in my humble opinion, but what I am afraid of—if I listened and read correctly what Brad Nixon said—as the project gets larger, we have a supplementary exposure. We are talking about \$30 million, but as the project is enlarged we are exposed to the tune of \$150 million, should you fail to make a profit, and we do not have any ironclad guarantees.

It says that the consortium "may" be left. With the highest of respect, Mr. Magwood, that is no way to run a business. If you were to reverse the tables, it would read "shall," the consortium shall pay back. There was no responsibility on the part of the consortium, if it failed to make a profit, to pay back the \$150 million. So \$30 million hypothetically—I catastrophize, I admit, but in the worst scenario—could end up being \$180 million of taxpayers' money on a place built by the people really for others. We do not have access to the boxes, but that is a whole different philosophy. It is made for the most fortunate. I am a socialist, Mr. Magwood.

Mr. Ballinger: In an \$800 suit.

Mr. Chairman: You obviously have not checked with my tailor.

Mr. Ballinger: Ed, you are not even a close match.

Mr. Pouliot: Do not get me wrong. I do not want everyone to be poor; I want everyone to be rich. I have one final question for the time being. You have talked about a partnership, and to me a partnership occurs when we share the good times and we share the bad times. The entrepreneurial spirit being alive and well, people put their best foot forward. They invest, and return on investment is the bottom line. There is nothing wrong with that. That is what guides our system. We want to wish those people well.

But if times are good—because you have indicated on your projection that you will be able to retire the debt in eight years, which by any standard, in any business endeavour, would be doing very well—is there any mechanism whereby the taxpayers would get their capital money back from the investment? Please do not lure me with, "The revenues will mean additional provincial taxes." Aside from that, aside from that endeavour—and we will get an assessment and so forth. In fact, if we have played our cards right, we end up owning the whole thing, especially if it goes into a deficit. As a share mechanism I have examined it not too meticulously but I am somewhat familiar with the way those things operate. Is there a provision whereby the people of Ontario will get their capital investment back, the \$30 million, because you are telling us we can anticipate a great deal of profit to come from the project?

Mr. Magwood: There is not a mechanism for repayment of the \$30 million. There are two opportunities, though, for the recovery. The first is through the ownership and equity, and, once again, I realize that you may not accept this, that the \$30 million is paid back totally by virtue of the ownership of the project within 10 years according to current forecasts, which I am saying are conservative. It is a payback in that period of time.

The second element—even though you did not want to be lured into this area, you have to let me at least tell you, because you may not know this—is that there are very significant paybacks that come to the province in other ways. We will not deal with jobs, and I will not deal with overall economic activity generally, which is called value added. That is significant for the province. It is \$500 million a year. But what I will tell you is—

Mr. Ballinger: Socialists aren't interested in that.

Mr. Magwood: That is why I thought he would not want to hear this, but just on the allure—if I can just finish the sentence, if you do not mind—the province, each year, from this project after year one, in income, sales, gasoline, cigarette and liquor taxes and so on, according to Coopers and Lybrand, will receive \$52 million per year from this project. So there is an element from that side.

But back to your question, no, there is no mechanism within the agreements for the \$30 million to be paid back to the province at its request.

Mr. Pouliot: Yes, I wanted to hear that very much and I thank you. In other words, we have two partnerships here.

Mr. Chairman: Mr. Pouliot, this will be your last question, so that I might allow other people to ask some questions.

Mr. Pouliot: Yes, I will be brief. Thank you. What we have is a contribution, not a partnership by the province, of \$30 million of taxpayers' money to help get the project going. The other partnership is that the free enterprise system, the consortium. If there are any profits, they will take them and the province will not.

Mr. Magwood: No, that is not correct.

Mr. Pouliot: Let me finish. If there are losses, the province could be left holding the bag for another \$150 million through the provision of loan guarantees.

Mr. Magwood: Let me put it another way. I would say a third of that is correct, in my view. For \$30 million, the province, through its provincial crown agency, receives \$60 million in equity in which it is a full partner for the project in terms of all the paybacks and all the rewards. But—and this is the third that you are correct on—should there be cash-flow deficiencies, then it would be open to the consortium portion of that partnership to not pick up that shortfall and have its interest diluted to zero.

That comes from corporations that might say—and I am not here to defend them—that they have put in: (a) a significant amount of capital, \$145 million, and (b) have made contractual commitments in many other areas—advertising alone is over \$7 million a year—that are significant to make the project work. The result of their involvement and the result of the growth has meant that we have been able to do things we could not otherwise do. We got the kinds of rates and levels for these boxes, club seats and advertising that have never even been seen or contemplated in any other like project, certainly not in Montreal.

Mr. J. B. Nixon: I would like to go back to the issue of repayable capital contributions and ask, first of all, how much is being contributed to this project by the private sector?

Mr. Magwood: In total, at this point?

Mr. J. B. Nixon: In total.

Mr. Magwood: It is \$145 million, plus the prepayments by other private sector members to boxes and club seats, which amount to about \$60 million. So we have received now \$200 million from the private sector towards the payment and funding of the project.

Mr. J. B. Nixon: If one of the consortium members chooses not to pick up a deficiency payment—stop me when I am wrong—then it forfeits its rights in the project, essentially over a period of time, if it persists in not picking up the deficiency payments. Is that correct?

Mr. Magwood: That is correct.

Mr. J. B. Nixon: So they lose their economic interest in the project?

Mr. Magwood: Correct.

Mr. J. B. Nixon: Who gains that economic interest?

Mr. Magwood: The other partners. It is a dilution, basically.

Mr. J. B. Nixon: So they do not get their money back?

Mr. Magwood: No.

Mr. J. B. Nixon: I just want to balance the question. I want to know if any people get their money back if they choose not to pay money in over a period of time.

Mr. Magwood: No.

Mr. Pouliot: I thought it was a win-win situation. It is a lose-lose situation.

Mr. J. B. Nixon: I am predicting win-win. You are predicting lose-lose.

Mr. Pouliot: I am not saying that. I am cautioning. I want this corrected. That is not fair.

Mr. J. B. Nixon: If we lose, we may end up with a box and you can go and sit in the box with the rest of us.

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Mr. Cousens: I have some concerns about what is going to go on outside the domed stadium. I am satisfied that we are going to have some good events inside. But then you start getting the numbers of fans that will crowd the subways, the TTC and GO Transit. For an event of 52,000 fans it is estimated that 20,000 will take the subway, 10,000 will ride GO train, 2,500 will arrive by streetcar and city bus and 2,500 will come by chartered bus.

What we have is a situation in which 15,000 to 20,000 fans would be coming by car. You have some data here on the number of people per car, but you are talking about a large number of cars. As well, you will have 5,000 employees. A certain number of them may well bring their cars. Starting with yourself and going through, there would be people who are used to certain forms of transportation.

I want to ask you about the infrastructure, the cost of the infrastructure, the capability of, first of all, the roads and the transit systems to handle the numbers of people we are talking about. Then I want to ask some questions on parking. I am primarily concerned with this. I think Toronto already has a major problem with congestion of traffic. There have not been enough dollars spent for many years to solve this.

I do not think it is just a new one. We are talking now about the stadium being located in the heart of a large metropolitan centre. I am not satisfied that I have had enough information to really know whether we have the problem under control. Maybe you could tell me what is being done to link up the road systems, the TTC and GO Transit, and then I would like to follow it up with some questions on the—

Mr. Chairman: Do you care to address yourself at least to the parking situation?

Mr. Cousens: No, I asked first. Quite candidly, who has asked the question? I have asked a question about the traffic and the co-ordination with the transit, GO Transit and the road systems.

Mr. Chairman: I am suggesting that our witnesses may wish to address themselves to those matters that are under their jurisdiction.

Mr. Cousens: I take exception to the chairman's interference with my question. I think there is a major problem. You have a stadium in the heart of the downtown section and we really have to be satisfied that you have the roadways and the transit systems linked up to it. Maybe he can tell me what they are doing to help make that happen.

Mr. Chairman: Maybe Mr. Cousens would like to listen to his answer.

Mr. Cousens: You will not allow him to answer the question that I have asked. I take exception to the chairman's interference with my question.

Mr. Chairman: Mr. Cousens, there are certain matters that are dealt with under public accounts; there are other matters that are more appropriately dealt with under the estimates.

Mr. Cousens: Either my question will stand the way I asked it or I will challenge the chair.

Mr. Chairman: Mr. Magwood, would you answer the question, please, as you see fit.

Mr. Magwood: As best I can.

Mr. Ballinger: Welcome to Queen's Park.

Mr. Magwood: I have said these words, "As best I can," four times already. Here is the answer. The problem, if there is one, was created by the selection of the site. That happened a long time ago. Second, we now have to deal with that as best we can and make it work. The thinking of the city of Toronto, when it made this decision, was that there would be very little parking built in conjunction with this project. In fact, the city simply cannot absorb and accommodate it, for two reasons: one is that, and the other is that we have a superior public transit system and that is the way people will have to get here.

As David Crombie said back in 1971, everybody has a right to come to work but not everyone has the right to take two tonnes of steel with him. That really is the watchword for this. We are now working with the TTC and there are a number of specific things that are happening as part of that program. Already, as you may know, that system is capable of handling 100,000 people per hour in rush hour. The maximum that we will dump into that is probably 25,000 to 30,000 people. That can be basically voided from our site within 20 minutes. There is actually a huge capacity sitting there. Between Union Station and St. Andrew's, that is the main way to get here.

Secondly, the light rail transit is under construction from Union Station south on Bay Street through Harbourfront, and hopefully with connections across Spadina Road will provide two points of access to the stadium, each within 250 metres, which is really very close. That project will not be completed until the late fall of 1989 so we will have the first four or five months without that in place, but our numbers show some distribution between that system and the subway system. In addition, we have the streetcar lines on King Street and Queen Street. We have express buses on Spadina to link it to the Bloor-Danforth line extension.

We are building a bus parking lot across the street to the southwest which has accommodation for 125 buses, which hold some 5,000 people. That means the charter bus group can be brought across the street from the SkyDome.

Next, we are working on, as part of enhancing the public system—and this is the way; our word is "TransIt to SkyDome"—a public walkway that is under construction right now from Union Station, across York Street, through 20 York. There is a 600-foot pedestrian bridge that is under construction across the rail corridor into the north end of the CN Tower and in turn into SkyDome.

Also, we are working with Marathon for extensions to Union Station to the south. There are five major teamways already being excavated and completed. Those are the old express linkages for the freight system that we have in the city to take the baggage down and out. They have been there now for 50 years, not used. That will provide pedestrian routes from Front Street, north-south, underneath the tracks to the south end.

Those are some of the things we are working on and initiating. We are doing it; it is not our jurisdiction. We do not own the land. But what we can do is push a whole series of authorities that are responsible for this stuff, from GO Transit to Via Rail to CP Rail, CN Rail, the Ministry of Transportation, which is in the act here, Metro roads and traffic department and the city of Toronto traffic department.

The problem, to a large extent—and I agree with you 100 per cent—is that we have traffic problems here and the traffic problems are going to be insurmountable unless there are some very specific steps taken. All we can do is push as hard as we can, from our own selfish perspective, to make sure that all these groups get together and come up with some kind of co-ordinated plan.

We have done our own transportation plan work. We have tabled with the city a strategy that deals with our interests only. That is not a complete answer, but maybe a final thing is to say that CN Real Estate, which owns the lands around us, is now under way with a \$120-million program that deals with infrastructure, so that within our package of costs there are items that relate to infrastructure that are in the order of \$14 million. That is for parks, roads, services and other things that I mentioned before. So we have some financial obligation by contract to CN to take care of the things right around us. It is spreading out the net to make our life, hopefully, a lot more comfortable, but that is not a complete answer.

Mr. Chairman: Supplementary, Mr. Ballinger.

Mr. Cousens: Mr. Chairman, I have the floor and I wanted to just continue with my question, if I may.

Mr. Chairman: Fine. Mr. Ballinger then, since he does not wish to grant you a supplementary, I will put you on the list.

Mr. Ballinger: That is fine. I will stand down and wait for Mr. Cousens.

Mr. Cousens: Are there any major changes being made to the Gardiner Expressway or the roads nearby that are going to help move traffic in and out from the road system itself, for cars?

Mr. Magwood: This is within the jurisdiction of Metro and the

Ministry of Transportation, but right now they are looking at and analysing a Front Street extension, which will mean that Front Street West hooks directly into the Gardiner at the Exhibition grounds. That is not a commitment; that is simply a strategy. That would be very helpful, not only to us but to the core, in order to alleviate the congestion and tie-up that exists now from the Exhibition right out to Jarvis Street. There are also, in addition to that, improvements to the Gardiner that are being contemplated. That is within someone else's jurisdiction.

Mr. Cousens: Is this included in the strategy that you prepared for the city of Toronto or for Metro?

Mr. Magwood: No, it is not.

Mr. Cousens: Could I have a copy of the strategy that you presented to the city of Toronto, the public document?

Mr. Magwood: Yes.

Mr. Cousens: What is the LRT costing? Is that in any way being absorbed by the Stadium Corp.?

Mr. Magwood: No, it is not.

Mr. Cousens: It is totally separate.

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On parking that ties in to it, I am concerned. One of the worries I have for people north of Metropolitan Toronto is that the location is going to be difficult unless we have GO Transit improvements to allow people to use the GO train on a north-south route. We have excellent services east-west, but people in the north-south area are really locked out of it because of the time that the service is provided.

I would be most anxious, if you are able to influence GO Transit or the Ministry of Transportation for the province, to start having special trains that will deal with the people who want to come from Richmond Hill, Markham, Unionville, Stouffville.

Mr. Ballinger: Oh, Markham.

Mr. J. B. Nixon: What a surprise.

Mr. Cousens: Look, I am on this committee to serve the people of Ontario.

Mr. Chairman: Please ignore the interjections.

Mr. Cousens: Okay, but if there is anything you can do to help arrange that, I think you can play a very important role, as you have already with the other transit services, to provide for that.

Let me ask about parking at the site itself. How many spots will be available on the site, how many parking places are available in nearby areas that are within walking distance to the site, and have you any idea what the cost of parking is going to be for people who do bring their cars?

Mr. Magwood: First, this really was not a question, but just by way of comment, we are working closely with GO Transit through our own advisers. We are attempting to upgrade the service not just for ourselves in the north-south routes. We are completely aware and familiar with the routes, the timetable and the use, and what we are trying to do is to set up a simple system for people to be able to use those services and be well serviced in using the core of the city. That includes also extension and work to the platforms that exist at Union Station. We are in the act to the extent that we are permitted to be, but we do have limits as to where we should have our nose, if you like.

With respect to parking, SkyDome itself has 575 spaces under the floor of the stadium. In addition, there is a 400-car park immediately adjacent which is connected to our 575-space lot, and it will be operated as a 975-car parking garage.

Second, within the area of proximity to the dome, there are 17,500 spaces within 1,200 metres of the stadium. By way of comparison, that compares basically to the envelope that you would draw from the Princess Gate at Exhibition Stadium, if you were to draw a circle into the existing Exhibition Stadium, in which there is today, I believe, 5,500 spaces. In terms of gross numbers of car spaces within equivalent distances to the competition, there are approximately three times as many.

However, one must look at the availability of those spaces, given where they are. What we have done is a sensitivity analysis of that to look at when we will have events and the availability of those spaces as against our need, looking at a modal split, which is the split between those who come by car and those who come by public transit. What we have come up with is that there are sufficient spaces within 1,200 metres to service our requirements under virtually any conditions.

That position has been aggravated, I might say, as a result of couple of specific things. One is the construction of the CBC headquarters. There were 1,200 spaces at grade that are now lost—not all lost, but a lot of them lost. What we will have is a period of discomfort because of that, until that is complete, but the number of spaces that will be replacing what is gone from grade is about two to one. That applies also to the Metro Centre, which is being built immediately to the north, which is the new Metro city hall.

These are things that have happened after the fact from where we started, but even taking those into account using what we call a worst-case scenario, there is sufficient parking in the area.

It is not what our public relations approach is, though. Our public relations approach is: "Come by public transit. Drive your car to the GO Transit lots that are on the GO Transit lines. Take your car to the TTC and park at York Mills, park at Lawrence, park at Finch," wherever it happens to be. We are negotiating with the TTC to provide free parking for those people and our promotion campaign will be, "Don't bring your car downtown."

Mr. Cousens: I will certainly look forward to seeing that strategy and maybe we can follow it up with further discussions.

Mr. Chairman: Mr. Ballinger, followed by Mr. Villeneuve, and then I would like to spend a little bit of time on exactly what the consortium members get for their investment.

Mr. Ballinger: I just have one question. It is sort of interesting: on one hand, we have Mr. Pouliot who is concerned about the shortfall or the possible deficit, and, on the other hand, Mr. Cousens is concerned about traffic. I really want to zero in on that, because I do not think you can look at one in isolation from the other.

I would like to ask you, since the phenomenal success of the project, with the public and private sectors working very closely together, if this was located somewhere outside of urban Toronto, as an example, do you believe you would have had the same sort of private participation and interest, at least to the great extent that you have?

It has turned out to be a phenomenal project, quite frankly, in my opinion. I am interested in your thoughts. I do not want to name a municipality, but there were many sites being proposed at the time that specific site was located. Would you mind responding, please, with your own opinion? You have been more actively involved than anyone else in the project.

Mr. Magwood: Yes. I do not know the answer to that. I am just speculating, but I think this site is why it has had the success it has, at least to this point in time. It is identified with the city of Toronto and the city of Toronto is hot. It is hot real estate, it is a hot product and it is seen throughout the world as a place where the action is. We are often so close to it that we do not realize that.

We have entertained in the last several months 24 voting delegates, for example, from the International Olympic Committee. We have had the mayors from six American cities here in the last 45 days. Interest from Japan is incredible in terms of finding a way to repeat this. All of that means this project is very much a torch bearer for the city in terms of interest in investment in the city and interest in what is happening.

Whereas at the beginning, I think a group of the consortium members—and I cannot speak for them—viewed this very much as a community investment, something which had perhaps no return whatsoever, nor did they really care, it has turned into something which has become probably a very worthwhile investment for them. The ability to attract more investors is like success begets success. It is just kind of going that way.

The selling of the boxes: The people who bought the boxes are the people who inhabit the crystal palaces downtown. They can come from work. That is key. It is very important to be in the middle of the heart-throb, and I think that has happened. Because that happens, it means you do better with respect to the rates you charge for advertising. It means that you do better with respect to the attendance that you are going to attract.

The linkage back to the transportation question is that we see a tremendous number of the core of users actually simply coming from the city of Toronto downtown already. Our events will be in the evenings. Almost all of them are evening events, and the taxation of the system is not actually going to increase all that much. In fact, there is one approach that says it will be less taxing because it is going to disperse out the peak hours in terms of the use of the system, particularly for the automobile. People will leave their cars parked wherever they are and come and walk to the project. I am speculating, but I think that where it is is a very large part of its own success.

Mr. Ballinger: I agree with you. I think had it been located outside

of the core, what we would have had was a very nice sports stadium, and what we now have is something far greater than a sports stadium. I was going to tease Mr. Cousens that I thought he might even want to launch his leadership campaign within the dome itself, but since he is not here, I cannot do that.

Mr. Chairman: If it had been at Woodbine, maybe I could have launched my leadership campaign. Mr. Villeneuve.

Mr. Villeneuve: Gentlemen, thank you very much for shedding some light on my concerns, which very much revolved around how you move people in traffic. I think you have addressed it reasonably well. I think it is ongoing.

Certainly, people will be coming from the riding I represent probably never having seen or used the GO train or the subway, and I think you will have to have a very good public teaching—

Mr. Ballinger: You make it awful tough for us not to want to comment.

Mr. Villeneuve: It is true. They will be coming by car. It is that simple, and yet they subsidize this Metro transit just as everyone else does in Ontario.

I will limit my questions to the captive market, the exclusivity of suppliers and what have you. I think that is pretty important, because I have been led to believe there are a number of people who would have liked to have had a kick at the can here and it was not to be.

Can you explain some of the mechanisms that have gone through in allocating McDonald's, for instance, or anyone else? How do you enforce this? Or do you just let the legal beavers go at it and fight it in the courts?

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Mr. Magwood: I am not sure exactly what the question is, but maybe I will make just a general comment and then we can get more specific on it, if you like.

Mr. Chairman: Maybe if we start with what someone gets for the \$5 million and what exclusive rights arise from that, then you might be able to take us through that as to the breakdown, what they get for what money and what the potential benefits are. I think that will lead logically into where Mr. Villeneuve wants to take you.

Mr. Magwood: The \$5-million investor receives the following benefits for his investment.

First, he receives equity in the project, which is an ownership interest itself. That equity interest is a function of a proportionate interest, based on \$5 million. His investment of \$5 million is the numerator and the denominator is the aggregate investment of all other parties, which would be \$60 million in the case of the province, plus \$145 million from all consortium members, the way I have described it.

In fact, in the documentation, if you read it, it does not use those numbers. It uses numbers that are one tenth of that. If you have looked at that, you could probably see it and that is because there is actually a split between common and preferred shares. But the mathematics ends up being the same. So the first thing that he receives is equity—ownership, a right to vote, a right to participate in the good times and the bad times.

Second, he receives certain other benefits. He receives a private box, and the boxes enjoyed by all the consortium members are in the \$225,000 per year area, which is between first and third for baseball. They receive a private box, a shell only. They must then finish the box, decorate it and so on, and they must purchase tickets to all the events that they want to go to.

Mr. Chairman: So the box alone is worth half, or close to half, of what they are investing. Is that correct? It would be \$2.25 million worth of box, if you figure out a 10-year cost.

Mr. Magwood: There are two numbers that perhaps I could give you for what it is worth. One is that for a third party, a nonconsortium member, to come and buy a box, if he prepaid for a \$225,000 box, the price was \$1.85 million. However, that is a 10-year present-value calculation. A 99-year present-value calculation, which is what the consortium member has, because his rights run for 99 years, is expressed as 10 years plus a residual right to renew in the tenth year. But let's say they do because things are moving along nicely. The present value of that box over that period of time is, I believe, \$1.93 million, something like that. So we could say we could put a value of something just under \$2 million on the box.

As part of that also, there is a right to parking, expressed at one point as six spaces, a right to reduce to four, and in fact it is four. You have a box and you have four parking spaces. Now, you finish it and you buy the tickets to events. So that is the second thing you get; equity and you get a box.

Next, there are some other lesser items that you get. A right to identity at an entrance gate: that was fine when we had only 10 consortium members; now we do not have enough entrances, so that has been virtually eliminated. Put a line through that. They have a right to be identified as a founder whenever anything is described, whether it is in a souvenir book or whatever. That is the handle that the consortium can walk with.

Next, they have the right to use the SkyDome logo, which is the "D." They can use that in their letterhead and, in fact, all of them do. When the Ford Motor Co., Hiram Walker and all the rest of them are writing letters, they will very often use a letterhead that indicates "A partner of SkyDome: proud to be part of it." They have the right to do that. They do not pay for that. That is simply one of the rights that accrue to them.

If they were to use that logo with their products, if they were to put it on a potato chip bag, a liquor bottle, a beer bottle or whatever, then they would have to pay fair market value for that. We would sell that to a third party, so they would have to pay for that. Their right then is to do that, but they have to pay additional for the right to do that.

There are two other items which are the major ones, if you like, in terms of those rights. The first is advertising. Each investor has the right to advertise within SkyDome on the various opportunities we have developed. That includes the big scoreboard, the big Jumbotron. It includes the signage in the concourse areas and in the ramp systems. It includes the right in any of our own publications to advertise.

Ford Motor Co. would have the first right of refusal at current market rates to advertise within its product category, which would be automobiles, trucks and whatever; and General Motors would not. If Ford Motor Co. elected not to take up those rights, then we could deal with a competitor at that time.

There is a mechanic which we might get to, that there is a certain threshold they have to invest in, which at this point is \$200,000 per year. In that example, Ford Motor Co., to protect its exclusive rights for Ford cars and trucks in terms of advertising in SkyDome must buy \$200,000 per year in advertising. If they do not, if they fall below that, we can deal with GM. The reality is that in the last 45 days, all the consortium members have in fact purchased a minimum of \$200,000 per year in advertising in SkyDome. It is a huge advertising contract. The largest we found in any comparable facility was under \$1 million per year; so advertising is a major one.

The last one which is the one you were really getting to, and so I left it last, is preferred supplier rights. This deals with product. In the case of each consortium member, it has been a matter of negotiation when they entered as a consortium member as to what their rights would be in exchange for their investment. Everyone gets something just a little different.

The Canadian Imperial Bank of Commerce has banking services. What does that mean? It means it is the one loaning us the \$150 million to pick up the difference between the cash in hand and the then current cost. What is the deal? The deal is current market. In fact, it is lending us the money at prime. It is the best rate you can get. All the other aspects and terms within the banking has to stand at one with what we could get from the Bank of Nova Scotia, the Bank of Montreal or anyone else. If it is not, then we do not do business.

As you go down the list, and you may want to get into this in more detail, Mr. Chairman, about who is getting what specifically, everyone has something a little different. Whatever it is, it is (a) at fair market value; and (b) it does not apply during construction. In other words, no one has, during the construction phase, in terms of its product, a right to require us to work with them.

For example, Ford Motor Co. has a protection for glass because it has a subsidiary that is in that business. It would mean that they would have a right to advertise glass but we are not buying their glass when we are building SkyDome because those preferred rights do not apply.

Mr. Chairman: In summary, for \$3 million—because the \$2 million is what they get for the box, not counting parking spaces and a few other little goodies like having a name tag and a free cocktail every once in a while probably, because you are a founding member—for the \$3 million left after subtracting for the box, Coca-Cola, for example, gets not just the exclusive rights to advertise in the dome but also the exclusive concession in the dome. In this case, unlike a lot of the others which have different contracts, it gets 97 years of this for \$3 million. Is that a fair assessment in that one example?

Mr. Magwood: I think so. If I could just add to it for a minute, using the \$3 million and accepting that for a moment, Coca-Cola has (a) equity; (b) a right to advertise in the dome at market rates we would establish; these are set up based on comparable facilities with a third party establishing rate; and (c) it has the right to supply its product. It must supply its product at market rates.

If the cost of one glass of Coke to McDonald's, which is providing our food concession, is 7.5 cents—I have no idea if that is even close, but let's say that is what it is—

Mr. Ballinger: I knew there was a markup there.

Mr. Magwood: Very small, is it?

Mr. Ballinger: Two-ounce glass.

Mr. Magwood: Yes. It is just a shot.

If that is the cost, that must be the current market cost for that product. If Pepsi would supply it at 7.2 cents and someone else does it at 7.1 cents, then there would be in every single case—and this on a day-to-day basis, this is not a matter of a 99-year fix of what Coca-Cola's prices are; they must meet on a day-to-day, regular basis the market value cost for Coca-Cola for us, so that we never have to pay any more than we would otherwise have to pay if the competition were open.

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Mr. Villeneuve: Getting back to the people who are there now, I gather it did not go to a public tender or what have you, before they happened to be there. McDonald's happens to be there. Could you give us a bit of a scenario as to how that came to pass?

Mr. Magwood: Let me deal with McDonald's as one because I know that it has been in the public eye in the last little while. The process was that in exchange for its investment, McDonald's received the preferred supplier rights to quick-service convenience food service in SkyDome.

Mr. Villeneuve: Exclusive.

Mr. Magwood: Exclusive. But subject to—and the "subject to" is that a fair market contract be entered into with them. A couple of things happened. First, we retained a third-party consultant to help us to review all other stadia that had food concession arrangements. We looked at virtually every stadium in North America—Laventhol and Horwath were retained to look at them—and at the kind of percentage arrangements that applied with everybody.

The upshot was that they came back and said: "In this situation, in this location, we think that this is what you would get if you were to take this out to public tender. This is what you would get as a best condition for third parties." What they came back with was a recommendation that we enter into a lease with McDonald's for 10 years, with a right of renewal for a further five years and that the percentage that McDonald's pays to us be 38 per cent, i.e., that for every dollar of sales 38 per cent be paid to the landlord by way of rent. Third, that recommendation was in the context that McDonald's pay all of the capital investment for the facilities that it would be putting in. At this point in time, McDonald's is investing something in excess of \$30 million in the 23 different concession stands that are within the project.

Then we sat down with McDonald's and negotiated it and it took some time. They wanted to pay less, we wanted them to pay more, but we always had here, if you like, what that assessment by a third party would be. At the end of the day that is where it ended up. We satisfied ourselves that McDonald's had exercised its preferred supplier rights, meeting the market test by using an adviser consultant to ensure that we were properly protected.

Mr. Chairman: Mr. Villeneuve, there are a couple of people who want supplementaries. Are you almost finished your questioning or were you going to ask some supplementaries?

Mr. Villeneuve: Just one more. You did not enter into any negotiations with any other fast-food suppliers such as competitors—I will not name any of them—to McDonald's. McDonald's had exclusive rights to negotiate with you and that was it.

Mr. Magwood: That is correct. I hope my chronology is right here. What I remember is that prior to finalizing that, in fact prior to negotiating it, we were negotiating with others before McDonald's actually secured the rights. It was that McDonald's entered the picture as a consortium member.

We did have discussions, I know, with Versa Food Services, the current arrangement down at Exhibition Stadium, and Real Foods, who are also in this business here. We are also completely familiar with those arrangements. For example, the current Exhibition Stadium arrangement is at 26.2 per cent, certainly a lot less favourable than what we were able to negotiate here.

Mr. Villeneuve: Okay. I will let my colleagues go ahead.

Mr. Chairman: Assuming that they are supplementaries, I will give Mr. Nixon one question, Mr. Pouliot and then Ms. Collins, who has been on my list.

Mr. J. B. Nixon: Mr. Magwood, it is my understanding that these negotiations for rights to stadium business took place very early on into the development of the project, perhaps even prior to your taking up your present position. You can correct me if I am wrong.

I have a two-part question. Was it a necessary precondition for participation in the consortium that you either contribute to stadium business, that you have a commitment to some business interest in the stadium, or was this sort of a subsidiary add-on? The second part of the question is, while I can understand your preference for well-established corporations in some cases, like Coca-Cola and McDonald's, and maybe not accept it, I do look at others and wonder how they were chosen. I see some names in here that certainly do not rank up in the Fortune 500; Bitove Corp. being one of them. You might care to respond.

Mr. Magwood: First, I was an employee of the corporation when the McDonald's agreement was negotiated. I was the party who was involved at first hand with that. I was there at the time. That contract is dated May 8, 1986.

Second, the requirement for a consortium participant to have a form of active business within the stadium—I do not think it is really styled that way. Certainly for the first consortium participants, there was little expectation of an involvement at all, other than the supply of their particular product. You can go back and look who came in at what point in time. But it so happens that there are some who have a lot more involvement and obviously a lot more potential for their companies that will float in the project than others. It is difficult to compare.

Without naming who is obvious, on one side what comes to mind is Olympia and York, for example, which has the right to supply serviettes, and McDonald's on the other side, which is investing a lot of money and will see very significant sales. There is a disproportionate relationship, obviously, between the businesses and the project. That is something which was dealt with by Trevor Eyton when he first talked to these people. I certainly cannot profess to know what the thinking is in the selection of these various players.

What I do know is that, since our involvement, there have been some participants who—from the perspective of the operation of a facility—have had a particularly important input, and for that we would certainly be very supportive. But as to how the players are selected, I think it is more a function of who has wanted to. For a long time before January 1, 1985, there were other parties trying to solicit interest from participants, and they were not interested. Pepsi-Cola was one, for example. A number of these companies that now are not so happy with their involvement were talked to at early points in time. Historically, these kinds of projects have not been very worthwhile for them.

At the beginning, then, it was like pulling teeth. It has only been really in the last little while that the group and the number have increased and there has been some opportunity to be selective. But even today, what is looked at is whether there is a particular category where a company could be beneficial to us. We want to see some benefit from their involvement in terms of the profile of the project.

Mr. Chairman: Mr. Pouliot wanted a supplementary.

Mr. Pouliot: I want to hypothetically bring my kid to the ball game.

Mr. Magwood: How old is your kid?

Mr. Chairman: Are you moving on to the corporate financing?

Mr. Pouliot: I want to protect the consumer here. What is your problem, Mr. Chairman? You have given me the go on the supplementary. Can I proceed?

Mr. Chairman: I am asking if your supplementary relates to the corporate financing of this?

Mr. Cousens: You will find out when he gets his question on the floor.

Mr. Pouliot: Thank you, indeed.

You go to a ball game. You go to McDonald's, which has the exclusive right for fast-food service, right? If I want to buy a Coke, provided that Coca-Cola supplies to McDonald's at an established supply value, I will buy a Coke. I cannot buy anything else, because they have met the criteria. By virtue of those criteria having been met, we have a captive market. But I am a consumer. Is there any provision which will protect the consumer for what I will pay for my Coke?

Mr. Ballinger: Yes, he answered it.

Mr. Pouliot: Supply. I am talking about retail and the consumer.

1150

Mr. Magwood: As landlord, in the case of the prices at which McDonald's sells its product—let's take that example—we have no controls. In other words, what will dictate price is basically supply and demand and what is appropriate. One difficulty that McDonald's has, quite frankly, is that there is a benchmark for its pricing that is out in the community. We have always felt, from our own point of view—and when I say "we," I feel I

represent the fan; that is the ultimate client as far as I am concerned—we will do well with our pricing, because there is a benchmark out there for things to be compared to.

But as landlord, like any other retail arrangement, whether it is a shopping centre or whatever, landlords do not have the right to tell their tenants what they can sell dresses for.

Mr. Pouliot: Would the same policy apply to Labatt's, where there is not the same benchmark established in the community? McDonald's takes a big risk if they start ripping off people or they are viewed as ripping off people, because people will say: "My God, you have a captive market here. I can only buy at McDonald's, but once I go downtown, I can go to Harvey's, I can go to the competitors." They will be judged very harshly because of the corporate image. Not everyone is like McDonald's. What about other products that will be retailed?

You have not a cartel or monopoly but, let us say, a captive audience. If you want it there, you have no place else to go. There is no free enterprise system. The element of competition is not alive and well, because that is not the way it operates at the SkyDome. I am sure if I want to bring a can of Coke through the turnstiles, I will be deterred. This is not the order of the day at the SkyDome.

Mr. Magwood: No. Just as with the price of Coke, we have no rights or controls with respect to the price of beer. That situation, just to remind you—and I am sure you realize this—is identical to what exists today at the Forum, Maple Leaf Gardens, the Big O, Exhibition Stadium and every other stadium. The prices are going to reflect partially what the market can bear and what is appropriate to do good business.

Mr. Pouliot: They are also higher as a rule in those other establishments.

Mr. Magwood: Than in other establishments.

Mr. Pouliot: Than a comparable product on the same day downtown.

Mr. Magwood: Yes, I would agree with that.

Mr. Chairman: I wonder if we can just summarize exactly what a person gets for that \$5 million. If we can take Coca-Cola, Coca-Cola invests \$5 million. Ninety per cent of that \$5 million corporate share would be written off against their taxable income, is that correct?

Mr. Magwood: A portion of that, yes.

Mr. Chairman: So of that 90 per cent, assuming that the corporation is in a 50 per cent tax bracket, instead of \$5 million it is actually costing \$2.5 million. For that \$2.5 million, they are getting a box which is worth \$2 million, which means they are left with a total out-of-pocket cost of \$750,000, is that correct?

Mr. Magwood: I may need Jamie to help me here, but it is my understanding no, that investment is not fully deductible in year one. A portion of the \$5 million—I believe \$4.2 million—is amortized out over 10 years, which is the initial term of their arrangement, subject to the exercise of the residual rights. So if you like, it is a 10-year write-down on a portion of the \$5 million; i.e. \$4.2 million.

Ms. Collins: You referred earlier to a Coopers and Lybrand report and you quoted some projected provincial revenues from that report. Is that an economic impact study that has been done and can you provide copies of that to the committee?

Mr. Magwood: Yes. What I should alert you to is that is a study that was done some time ago. What we have done is taken the conclusions they had—and it deals with all kinds of things, building permit fees and basically all the economic benefits that would accrue to the public sector—for the project as it was before it grew. What we have done is basically exponentially extended that out to cover the existing project. So we have not done a current update on the project, but I would be delighted to give you that. In fact, I think that may be part of the record from a previous session.

Ms. Collins: I understand we do not have a copy of that information. Is that correct? Could you provide us with the most recent information?

Mr. Magwood: That is fine.

Mr. Chairman: Since we do have a couple of minutes, I wonder if we can go back to the question I was trying to get at as to exactly how much you are getting for your \$5 million. For your \$5 million then, 90 per cent of that \$5 million or \$4.4 million, in fact then, comes back to you in tax write-downs or write-offs over a period of 10 years.

Assuming they are in the 50 per cent tax bracket, that \$4.5 million comes back to you in some form at \$2.25 million. Even assuming that there is no profit and that there is no income coming in, if you add on your \$2 million, which is what the box is worth, am I correct in saying that for \$750,000, Coca-Cola gets supplier rights for 97 years and exclusive advertising rights?

If I am correct, is that not a pretty good deal? Does the corporation feel that the charge of \$5 million is adequate in comparison to what a corporation would get in return for that?

Mr. Magwood: I understand the way the logic has gone. I do not think it is exactly accurate the way you have expressed it. I think we need a more sophisticated view of it to be really helpful.

Mr. Chairman: I recognize that when you are doing it over 10 years, you—

Mr. Magwood: It is a 10-year amortization write-down of a significant portion of the investment. Another portion of it is not deductible. Depending on the tax bracket that group is in, it would be treated in a different way for each corporation. But to take all that at present value today and say that therefore the net cost is \$1.8 million rather than \$5 million really is not right. I do not think you could do it that way.

Mr. MacArthur: The other thing, of course, is that the \$2 million paid over time for the box is also deductible, so I do not think you would subtract \$2 million from the \$2.75 million. You would take the after-tax cost of that, as well.

Mr. Chairman: That would, in turn, reduce that to \$1 million rather than \$2 million. Since we do not know of any profits that are coming in, you do not know what to add that they may get in terms of return, either.

It is just that if you take any of the hypothetical scenarios, it seems that it is a pretty good deal. You can ask, "If it was a pretty good deal, why didn't Pepsi want to join it?" Maybe that is the response, but it is just something that I guess is a question some people might ask.

Mr. Magwood: Coming at it from another direction, it is certainly a much better deal now than it used to be. The doors are still not being knocked down by people dying to become part of the arrangement. So there is sort of a market test on this whole thing. We are as far as we will get as far as new consortium members are concerned. I think there is anticipation of a maximum of one or two more. That would be it. There has just been no more interest from anyone. We have saturated it. We have gone as far as we can.

Mr. Chairman: We have a number of questions I am sure that we would probably like to explore with you in greater depth. We are fully booked until the Christmas recess, but if it is the desire of the committee that you be invited back to answer some more questions, then we will be in touch with you.

We appreciate your co-operation, as in the past. We greatly appreciate that the corporation has listened to the concerns of the committee members in the past and has adopted many of its concerns and implemented many of its suggestions.

Thank you for your co-operation. I suppose it would be considered a partisan comment if I wished you good luck this afternoon, but I am sure there are a number of taxpayers who are wishing you either good luck or bad luck, depending on which side of that court case they are on.

Mr. Magwood: Thank you.

The committee adjourned at 12 noon.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMMUNITY SAFETY

THURSDAY, FEBRUARY 2, 1989



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Adams, Peter (Peterborough L)

Ballinger, William G. (Durham-York L)

Collins, Shirley (Wentworth East L)

Cousens, W. Donald (Markham PC)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Nicholas, Cindy (Scarborough Centre L)

Nixon, J. Bradford (York Mills L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Charlton, Brian A. (Hamilton Mountain NDP) for Miss Martel

LeBourdais, Linda (Etobicoke West L) for Ms. Collins

Runciman, Robert W. (Leeds-Grenville PC) for Mr. Villeneuve

Clerk: Arnott, Douglas

Staff:

MacDonald, Wendy, Research Officer, Legislative Research Service

Witness:

From the Office of the Provincial Auditor:

Otterman, Jim F., Assistant Provincial Auditor

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, February 2, 1989

The committee met in camera at 10 a.m. in committee room 1.

11:09

COMMUNITY SAFETY
(continued)

Mr. Chairman: Mr. Cousens has moved the notice of motion which was tabled at an earlier sitting of this committee:

"That the Provincial Auditor immediately conduct an audit of the risk management system currently in place at the Brockville Psychiatric Hospital for patients on warrants of the Lieutenant Governor.

"The audit should specifically review the circumstances surrounding and leading up to a January 13 incident that led to criminal charges being laid by Brockville police against a Brockville Psychiatric Hospital forensic patient."

Mr. Cousens has tabled with that a document, which is a January 13 article from the Toronto Star. Are there any other documents, Mr. Cousens, that you wish to table?

Mr. Cousens: Mr. Chairman, if I may, I would like to just pass it over to our colleague, Mr. Runciman from Leeds-Grenville, to take it further because of his being closer to the action. He has some other things to say.

Mr. Runciman: Mr. Chairman, there are a number of other documents that I would like to have circulated to members. One is an internal report done at the hospital respecting the January 13 incident which Mr. Cousens has mentioned in his motion. The other attachments include an article expressing concerns from the head of the Ontario Public Service Employees Union at the Brockville Psychiatric Hospital.

Mr. Chairman: I wonder if we can identify them one at a time, Mr. Runciman? Mr. Runciman has tabled with us, as our second exhibit, an exhibit that has as its title, "The [name withheld] medical progress note." It has the name of a particular person, [name withheld], at the top. It is a typewritten series of memorandums signed, for the most part by [name withheld]. Is there another document?

Mr. Runciman: There are two articles, one expressing the views of the head of OPSEU at the Brockville Psychiatric Hospital and the other attachment, a news clipping, is from an editorial in the Recorder and Times, the daily newspaper in the community.

Miss Nicholas: Would these documents be confidential, and should we be cautious about our use of words or names?

Mr. Chairman: I was not sure about that. That is why I did not use any person's name other than the professional people's names.

Miss Nicholas: I would not want to put myself in a position of libel or any such thing.

Mr. J. B. Nixon: I am going to object to the filing of this document. I believe it is a confidential document and it is not appropriate that it be put before the committee. It violates the confidentiality which exists between any patient and the medical professional who is treating the patient.

Mr. Runciman: Rather than get into an argument about the appropriateness of this, I am prepared to have it removed and deal with the other two news clippings that have been put before the committee.

Mr. Chairman: Just to make it understood, then, are you saying that you want it to be an in camera document or that you want the document removed from the table?

Mr. Runciman: I do not want to get into a prolonged procedural hassle. If the committee is prepared to accept it as an in camera document, that is fine. If there is going to be an argument about that, because of time constraints, I am prepared to just remove it.

Mr. Chairman: May I have just an indication for Mr. Runciman? Are there arguments about having this as an in camera document to the committee?

Mr. J. B. Nixon: I would argue.

Mr. Chairman: Since there are arguments, then, I will ask the clerk to collect the exhibit. It no longer becomes an exhibit in the committee.

Mr. Adams: I am concerned about the entry in Hansard. Although you did not, in fact, use the name, you gave sufficient information, I think, for it to be recognized. Does this withdrawal mean that your remarks will be struck?

Mr. Chairman: I had used people's initials so that I thought that it was—

Mr. Adams: Given that we had the hospital, we had the first name, the initial of the surname and then the doctor's name—

Mr. Chairman: What is your objection? None of the contents of the document were used.

Mr. Adams: The person who is being discussed is known and is recorded in Hansard. He could easily be known.

Mr. Chairman: No, the person who is discussed was simply labelled by a letter.

Mr. Adams: And other information. The hospital, the name of his doctor and the sex are indicated because you gave the first name.

Mr. J. B. Nixon: I agree with Mr. Adams. If that is what the record shows, it should be struck from the record. I think it is inappropriate.

Mr. Chairman: We will have struck from the record the name of the person and the hospital.

Interjections.

Mr. Runciman: I request the support of my colleague to the right to not get involved in this hassle.

Mr. Pouliot: Well, I am provoked.

Mr. Runciman: So am I, but I am going to restrain myself.

Mr. Chairman: Would you like to address yourself, then, to your motion, Mr. Runciman?

Mr. Pouliot: I want to say something about process, just a note of caution. But in view of the time restriction that my colleague is under, please proceed.

Mr. Runciman: Thank you very much.

Members who have been on this committee for some time will know that after an incident in London, Ontario, last spring where a 14-year-old girl was abducted from a bus stop in London, sexually assaulted, thrown off a bridge and left for dead in that community, there were concerns raised about the release of individuals on Lieutenant Governor's warrants into the community—not necessarily the release, but the way those individuals were being monitored when in the community.

At that time, my party called for a public inquiry into the St. Thomas Psychiatric Hospital/London incident. We were not supported in that call. I brought the matter to this committee and indicated that, although I was not pleased with this as the only initiative undertaken, I felt it would be better than nothing that we have the Provincial Auditor's office go in and do an audit of the risk management system in effect at St. Thomas to see what happened with respect to that particular incident.

Again, that request was denied. Some members will recall I became overly emotional about that, because this is a major concern in my community, and said some things later on in the House which I sincerely regretted. I am going to contain myself as best I can with respect to this issue now.

The minister did initiate a study, by a firm called Encon, to take a look at the risk management system. It came in with a number of significant recommendations. When that report was tabled, in mid-November 1988, the minister said the last six of those recommendations would be implemented immediately.

A couple of those recommendations dealt with notification of police agencies and another recommendation dealt with the very critical matter of assessing the accessibility of alcohol and drugs for individuals who could have their personality affected in a very dramatic way by having easy access to those products.

As you know, this month or last month in Brockville an individual was in the community, an individual—there are clear indications from news reports and other areas; you have those news reports in front of you—who was found not guilty by reason of insanity of a very serious sexual murder in Toronto a number of years ago and for whom, it is clearly indicated, access to alcoholic beverages is extremely dangerous.

It is now clear we never really received information on what happened in the London-St. Thomas incident, why the system broke down, but we now have some evidence as to what happened in Brockville. It very clearly points to negligence, an irresponsible approach to dealing with individuals on loosened warrants in the community and a lack of recognition of the danger they pose to the community at large.

What I am asking, through Mr. Cousens's resolution, is that members of the committee give very serious consideration to this public safety question. There has been a breakdown in the system. That has been verified through a number of sources. At the same time, we still have the administration of the hospital saying nothing is wrong, despite the evidence that points to the fact that something is very seriously wrong.

I think at this point it is appropriate for this committee to support the immediate entry of the Provincial Auditor into the scene by conducting an audit of the risk-management system currently in place at the hospital, rather than looking at the system at large across the province.

I think that since there is information on the record—whether members wish to deal with it or not, it has been tabled in the House and it has been released to the press; it is out there, it is public knowledge; certainly it is the kind of information that will be readily made available to the auditor's office—it is incumbent upon us as members of this Legislature to take this very modest step to review what happened in the process in Brockville, the system that is in place, why it broke down and what steps should be taken to ensure that does not occur in the future.

We are talking about loosening warrants of individuals and releasing them into the community. That may be a very laudable initiative on the part of this government and governments across the country, but at the same time, I think it is incumbent upon us to do whatever we can to ensure that when these individuals are released into the community, their activities are monitored during the time they remain on warrant, and that any concern, any violation of the loosened warrant provisions, is immediately followed by removal from the community for a thorough assessment of behaviour.

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I think to do otherwise is irresponsible on the part of members of this Legislature and members of this committee. I certainly hope, given this latest incident, that members will react in a positive way.

Interjection.

Mr. Runciman: I am not saying anything nasty, Bill. I am quite sincere about this and I think you know I am. I hope you will look at it in that way.

I think it is just a matter of time. This woman in Brockville could have been murdered. She was rescued by people who were close at hand. It is just a matter of time until there is a death, a real tragedy out there. I think this is a very modest proposal I am making, to have the auditor go in. I know Mr. Archer was supportive of the original request and sees no problem in conducting this kind of an audit.

I simply ask for your support and understanding of the situation.

Mr. Adams: I wonder if the representatives of the auditor can give us some indication of the jurisdictions here in terms of the warrants and in terms of the law we are dealing with.

Mr. Otterman: I believe that matter came up with the previous motion on St. Thomas, and I think the position was that, indeed, there could be a jurisdictional problem, and if we undertook the assignment and ran into such a problem, we would simply come back to the committee and report that and stop at that point.

Mr. Adams: Since then it has not been possible to get any further than that? My understanding is that the Lieutenant Governor's board, or whatever, is an independent board. Are you not used to dealing with that sort of situation?

Mr. Otterman: We have not done any followup. After the motion was turned down, we did not follow up the jurisdictional problem. I do not believe that was a request.

Mr. Runciman: Can I interject because I have to leave? I think the point was made the last time that the jurisdictional question did arise. I will put this on the record.

Indeed, the Lieutenant Governor's review board is under federal jurisdiction. What happens is that once the board in its wisdom, or lack of same, decides to loosen a warrant and allow an individual out into the community or into a forensic unit, medium security, what have you, then the risk management process falls upon the administration of the hospitals. This is in Mrs. Caplan's report. It is in the St. Thomas report as well: that the hospital administration has the ability, at any point, to cancel community privileges. It is its responsibility, within the administration of the hospital, to monitor the activities of these individuals, not only in the forensic unit but during their time in the community as well.

I think the auditor's position on it was quite reasonable: He indicated the last time that his people are prepared to go into this, and if indeed they do bump into a jurisdictional problem—which I do not foresee, personally—they will immediately come back to the committee and we can address the concern at that time.

Mr. Chairman: Your understanding then is that if there is a jurisdictional problem, the auditor's people would report back to us when we reconvene in April, because that would be the first opportunity in which we would be able to deal with the matter?

Mr. Runciman: Yes. I do not foresee that happening, in any event, but that was the understanding.

Mr. Chairman: You have a vote and I realize you have to speak in the House. Are there further speakers? Or can we take a vote on this?

Miss Nicholas: Am I allowed to ask questions? I am sorry Mr. Runciman has gone, because I think I might have provoked him with my questions so maybe it is better.

What I do not understand in this—

Mr. Chairman: Whom are your questions to, Mr. Cousens or the auditor?

Miss Nicholas: I guess to Mr. Cousens. I think this is a serious incident. I am not taking it lightly.

The minister came back with the results of the study that she initiated. Mr. Runciman referred to a few immediate programs that were going to be implemented that may or may not have been implemented. Was he dissatisfied with the study that was done, or that they were not accepted?

I am not quite sure what went wrong after that, because I think she was responsive in setting up a risk management study and came back with some recommendations. I do not know if those were not immediately implemented and that is the problem, or if he was totally dissatisfied with the way she even looked at it, whether he felt that it was not even looked at fairly.

I want to sort of understand where the main breakdown was, if he thought there was any satisfaction in that process whatsoever, because if the Provincial Auditor is only going to review it and maybe make the same recommendations—or he may not. Was the implementation the problem, or was it the nonrecognition that there was a problem by the institutions?

Mr. Cousens: As I understand it, there is a combination of things in what you are saying. The first is that there were a number of recommendations that were being made, and the extent that they have been followed up is a matter of concern to the community. Mr. Runciman just referred to the latter six of them. He was not sure the extent to which they had been implemented. That is part of the issue. I think there was a sense, as well, in his frustration that the ministry itself, not just the minister, was saying, "We are not able to become involved in a Lieutenant Governor's warrant."

Miss Nicholas: Because of the jurisdiction.

Mr. Cousens: Because of the jurisdictional questions. I am satisfied that there is really a mixed jurisdiction here by virtue of not only authority and power but also the local control of patients once they go into the community. The two systems have to interact in the way in which people are allowed to have freedom from the facilities. I think there is a joint responsibility. Probably more power lies with the federal government on the release, but then there is still a veto power within the local hospital to prevent people from having total access to the outside.

Miss Nicholas: Can I have one more? If indeed the six recommendations that were to be immediately implemented were good recommendations, perhaps not as thorough as Mr. Runciman would have liked—but say they were not immediately implemented. I wonder if the Provincial Auditor's going in and perhaps making the same recommendation might not solve the problem, which is the implementation aspect and recognition that they have to find a way of implementing, rather than making more recommendations, which would be a problem. Do you know what I mean?

Mr. Cousens: I think that is a possibility. If that comes back, then it does almost become a federal matter. Mr. Runciman will have to work through his federal member of Parliament and there will be other actions taken. Who knows? To be honest, we do not know what the auditor is going to come back and say. If he is able to make some recommendations that are able to help address the concerns that are coming out of the community, then that in itself is positive. Am I answering your question? I think there is an element of worry as to whether or not this is even going to begin to solve it. I just do not know.

Miss Nicholas: I guess the basis of my question is whether we are actually going to be solving anything, effectively, by the Provincial Auditor's going out. It is bringing it to our attention. It is effective, but I just wonder if it is going to be any more effective than the minister doing the risk management study, except that it is coming from the Office of the Provincial Auditor as opposed to coming from the minister.

Mr. Cousens: I think it becomes the court of last resort for a provincial member who has exhausted other avenues to try to get some resolution to a problem that is there and unresolved. If there is any way a recommendation that comes through the auditor's independent review of the situation can help make sure it does not happen again or there are other limitations that can be placed on the system, then that in itself can satisfy the concerns of the community, realizing that it is not a small one to solve. It might require a change in systems and controls and other things, and it might require interaction between the provincial and federal governments in a way that does not presently exist.

None the less, I appreciate the comments of the honourable member in saying there is a problem. I think the editorials and the things that we have are evidence of a local concern that is not going to go away and is not going to be even addressed unless this kind of action is taken.

Mr. Chairman: I wonder if Mr. Otterman might have any comments on that which would be of assistance to Miss Nicholas, as a follow up to her question.

Mr. Otterman: There is no doubt the report that was referred to, or the internal study, would be a very useful reference point to begin from, and we would take that into account. However, I think from an audit point of view, we would be looking for weaknesses, deficiencies in the system, and the emphasis necessarily would not be on recommendations.

1130

The way this resolution is worded, the direction is to look very specifically at the system in place for patients under warrants of the Lieutenant Governor. Indeed, when it comes to recommendations, I could assume they may come out the same way. However, until you get into any audit, any assignment, you are not sure what you are going to uncover, so it could be a very different result.

Mr. J. B. Nixon: The resolution before us is very specific. It asks for a specific review of certain circumstances surrounding a certain incident involving an individual. I have a couple of questions. Have there been criminal charges laid in this case?

Mr. Cousens: I understand there have been criminal charges laid.

Mr. J. B. Nixon: Has there been a conviction obtained?

Mr. Cousens: It is before the courts at the time, but there is no conviction.

Mr. J. B. Nixon: So we have no idea whether the individual being considered is guilty, innocent or whatever?

Mr. Cousens: If I can point to the incident that led to charges

being laid and its being before the courts, it is not necessarily the case that the courts will come along and have a coroner's jury and make recommendations that touch on the system itself to make the necessary changes.

Mr. J. B. Nixon: I realize that.

Mr. Cousens: What this is trying to do, if I may say, is to go to the source of the problem and see if there is anything that can be done to prevent future occurrences.

Mr. J. B. Nixon: My suggestion to you, Mr. Cousens, and to Mr. Runciman through you, is that it is among many things premature at this point, because we do not know who did what. There has not been a conviction obtained. We are presuming that the individual in question is guilty. We are presuming that not only is he guilty but also that except for certain steps having been taken, he would not have committed this crime. It all hinges upon whether he has committed a crime, and he or she has not been convicted; whoever this individual is has not been convicted. I think you are going a long way to biasing his or her case. I think it is very unfortunate. We are a country based on the rule of law, and as legislators we should respect that rule.

Mr. Chairman: Just for clarification, are you suggesting that you can accept the first paragraph but not the second paragraph? Is that where you are headed?

Mr. J. B. Nixon: I cannot accept any of it. I am happy to elaborate.

Mr. Chairman: I will let Mr. Cousens respond if he wishes.

Mr. Cousens: I am concerned at Brad's reaction, because the problem is still there. We have still had a stabbing incident. There is worry that the system has some holes in it. If those leaks in the boat are such that there are going to be future occurrences, why can we not begin to look at trying to prevent future actions? If a delay right now, with no corrective action being taken to the system, could cause that, then let it be on our conscience.

I do not think Mr. Runciman or the community really wants to see that; nor do you. There is a deep problem. How can we begin to address it? This might be a way of giving it a focused attention so there is preventive action taken without passing judgement. If there is a sense here that the motion could be changed, maybe the chairman gave the key: remove that January 13 reference and let that be part of the background information. That may be a better way of doing it.

Mr. J. B. Nixon: The problem I have is that Mr. Runciman has come to the committee with a newspaper article where it is reported that a stabbing has occurred. It reports that an individual has been charged. Based on that, he says: "I am alarmed. I am upset. I am concerned about public safety, and therefore there should be an independent examination by the Provincial Auditor."

I say that he is jumping the gun at this point. All we know is that a stabbing has occurred and an individual has been charged. The nature of the stabbing has not been proved in a court of law beyond a reasonable doubt. Whether or not this individual committed the stabbing has not been proved in a court of law beyond a reasonable doubt. Until it is proved in a court of law beyond a reasonable doubt, I suggest to you that Mr. Runciman has not brought to this committee sufficient evidence for us to make a decision to pursue an

independent investigation of any matter relating to the issuance of warrants by the Lieutenant Governor as they may relate to the Brockville Psychiatric Hospital.

Mr. Chairman: I have a whole bunch of people on my list. Because of the time restraints I am going to try to let every member say something and then the other members will go back on the list for the second or third time, as the case may be.

Mr. Pouliot: I spoke earlier in the House on a private member's ballot item and I expect I will have to go and support the same ballot item in about five minutes, so thank you for the time. I will be brief.

I think Mr. Runciman has brought forward in front of the committee the underlying concern on the warrants system, where we have some 400 that are reviewed annually by the Lieutenant Governor; that is the crux of the matter. What the resolution addresses, you are quite right, Brad, is a particular concern and you have to say, in justice, this is what we are presented with. It is a parochial item or it appears to be. It is in front of the court. Therefore we would be premature to get involved with it by way of the committee.

The system of warrants has been a long-standing dilemma. The number of incidents has, if not escalated, been there and the public is quite aware of it. What Mr. Runciman is saying through this resolution, I trust, is that the crux of the matter is that the warrants system in Ontario should be addressed. In this case, Brockville is in his riding, I trust, but I think it is used as "the case." I think we can overemphasize the fact that the wording of this resolution does not lend the committee to mandate the Provincial Auditor to enter the picture.

I think of much more importance is the presentation that Mr. Runciman made in his first resolution, which was defeated by the committee pending a risk management study to be released by the minister. Obviously, he is not satisfied with the contents of it and found it perhaps somewhat generic in nature. It did not address the problem. The recommendations were fairly mild, and he wants to add more clout to the warrants system. This is where I see the resolution, the principles, the intent, the spirit of the resolution.

I have to be in favour that we mandate the Provincial Auditor to enter the picture. In terms of the resolution itself, perhaps we are premature, so there is a dilemma there.

Mr. J. B. Nixon: Can I respond?

Mr. Chairman: I think we will allow Mr. Nixon to respond.

Mr. J. B. Nixon: Everyone recognizes that this is a very serious matter. There is no doubt about that. They are serious issues relating to individual rights and collective responsibilities of government, of both governments perhaps, of the Provincial Auditor, of public institutions and so on.

Given that it is a serious matter, and given that there is a strong concern on the part of Mr. Runciman and given the potential impact of any examination that might take place upon individual rights, collective rights, institutional rights and so on, I think it is incumbent upon him to come before this committee with evidence that strongly supports the need for an

inquiry. What we have got, simply put, is an article from the Toronto Star, an article from the Recorder and Times in Brockville and an editorial from the Recorder and Times in Brockville. He does not have the case made out. He does not say there is clear evidence and systematic abuses and here it has been established in the courts or in some court of record, an administrative tribunal, that they are systematic abuses.

1140

I am not prepared to recommend this type of examination take place when it could have such a serious impact without sufficient evidence to justify the decision to so do. That is it.

Mr. Pouliot: If you deal with the specifics of this thing—if I may, and I do not want to debate with Brad, but you are right—after 15 years of model behaviour, I think any one of us here who sat on any committee would have said, "It's about time that you have a chance at the outside world." That is why I would like to see the overall concern on the 400, the system of warrants, the review.

Mr. J. B. Nixon: But if this is an overall concern, it is in a vacuum. Where is the evidence? You may feel that you have an overall concern. Other committee members may feel that, but I feel overall concern about an awful lot of things in government. We really have to make a decision about which are the important things to do. If I feel strongly that something is important enough to pursue, I think it is incumbent on me to put before a committee evidence to show the strength and conviction of my concern.

Mr. Cousens: If I can just intercede at this point, evidence that Mr. Runciman had has not been allowed in the committee.

Mr. J. B. Nixon: For good reason.

Mr. Cousens: But that evidence also shows that the staff at the hospital knew that this person who is now charged with the incident was drinking for three days prior to his being released. There is obviously evidence that is available that, once reviewed, can substantiate the point we are making for further investigation of it. I am satisfied and I think the intention of Mr. Runciman and myself is being questioned that it is just sort of facile. It is far from that.

Mr. J. B. Nixon: I am not suggesting it is facile. What I suggest to you is—I am not going to debate the evidence that was before this committee because I think it was improperly before this committee. I think the presentation to the committee represented a serious breach of the confidentiality between a patient and a doctor, which is something we traditionally respect as a society. I think it was a serious breach even to put it before the committee. I refuse to read it, and that is why I objected to its introduction.

I think there are proper ways to put evidence before a committee. He has the opportunity at any time to so do by way of motion, and he has not done it. If you are going to rely upon evidence which may have been obtained illegally or improperly, then I think you have to do more homework than that to build a case.

Mrs. LeBourdais: I would just like to concur. Again, we are being asked to respond to one tragic incident, and anything that becomes at all

life-threatening has to be taken with particular seriousness, but again, we are looking at wanting to analyse an entire system without sufficient proof that there are major flaws in that system.

Looked at on a percentage basis, there has not been anything put before us in that area. There was a 15-year positive track record, if we are going to look at this particular—

Mr. Chairman: I would prefer that we not deal with the case whatsoever.

Mrs. LeBourdais: Okay. With any segment of society, those who fall into the same category, there are always happenings of a tragic nature. When you are dealing with individuals who, for a variety of reasons, have a lot of strikes against them, the incidence of failings should be even higher and probably will be even higher, and yet on a percentage basis of these approximately 400 warrants that exist at any given time, there just does not seem to be sufficient evidence to go after the system as a whole because of one, albeit tragic, incident.

I would agree with Mr. Nixon. I would like to see more evidence that the system is truly flawed, rather than one tragic mishap with an individual.

Mr. Chairman: I am going to give Mr. Ballinger some time, because he has not had an opportunity. Then I will ask Mr. Cousens to sum up.

We do have a problem that I did want to meet with the committee for five minutes, since it will be our last meeting prior to the recess, in camera. Therefore, unless I have further objections, I will allow Mr. Ballinger and then Mr. Cousens and then we will take the vote.

Mr. Cousens: So that I do not surprise you in a negative way, I would like to have five minutes so that I can get Mr. Runciman back to participate in the vote at the appropriate time, so if you—

Mr. Ballinger: That is fair.

Mr. Cousens: So if we could go into camera or something?

Mr. Chairman: That is fine.

Mr. Ballinger: That is certainly fair.

Very briefly, because there is not much time and I think I understand where Mr. Runciman is coming from, especially in his own riding: I did not agree last time and I do not agree this time that this is the forum. We are talking about warrants that are a federal responsibility, and I really do believe that if there is some question about the nature of what is happening with the issues of warrants then they should be taken at that level of government and not here. It appears that Mr. Runciman feels that this is the only vehicle he has to achieve his goal. There is not one of us here who does not understand the nature of the issue. But it is a federal responsibility.

Mr. Chairman: Mr. Cousens, is it your wish to sum up or would you rather that we have Mr. Runciman come down and sum up?

Mr. Cousens: On behalf of Mr. Runciman and behalf of our caucus, we see it as a very serious situation that goes beyond the incident itself and

there is sufficient evidence that provokes us to look for a way of trying to address the overall problem. We see the need for that now. We believe there is benefit to having the auditor, who comes in without any axe to grind and is independent from any partisan feelings and also is able to go into it and look at the system in a general way to see if there are problems.

I would have to disagree very strongly with something that my friend the member for Durham-York (Mr. Ballinger) just said, and it has to do with the fact that there has to be responsibility on the part of the hospital itself for those who are given release orders. By virtue of that, there is a mutual, both provincial and federal, jurisdiction over what happens with patients, knowing that the Lieutenant Governor's warrant does have jurisdiction there. It also does for our provincial level and the local hospital. So I see there being a marriage between the two jurisdictions at that point, which requires some review now rather than allow a future incident to happen.

Mr. Ballinger: I could not disagree more. Nothing that the Provincial Auditor will do will have any influence on the issue of the warrant.

Mr. Cousens: I think that there are controls that can be exercised and brought into effect.

Mr. Ballinger: Obviously we have a difference of opinion.

Mr. Cousens: Okay, and I respect that.

Mr. Chairman: I want to thank members for an interesting and well-reasoned debate on an issue that I know has certain emotional overtones. I appreciate that that is the way that the standing committee on public accounts should debate issues.

We will be going in camera for five minutes for a small matter and I will be taking the vote at five to 12 on this matter. We will go in camera for five minutes and reconvene at five minutes to 12 when Mr. Runciman will be here, because he is in the House.

The committee continued in camera at 11:48 a.m.

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The committee divided on Mr. Cousens's motion, which was negatived on the following vote:

Ayes

Cousens, Pouliot, Runciman.

Nays

Adams, Ballinger, Charlton, Fawcett, LeBourdais, Nicholas, Nixon, J. B.

Ayes 3; nays 7.

The committee adjourned at 11:58 a.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988:
GOVERNMENT ADVERTISING

TUESDAY, APRIL 11, 1989



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke—Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Adams, Peter (Peterborough L)

Ballinger, William G. (Durham—York L)

Collins, Shirley (Wentworth East L)

Cousens, W. Donald (Markham PC)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Nicholas, Cindy (Scarborough Centre L)

Nixon, J. Bradford (York Mills L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Charlton, Brian A. (Hamilton Mountain NDP) for Miss Martel

LeBourdais, Linda (Etobicoke West L) for Miss Nicholas

Pelissero, Harry E. (Lincoln L) for Mr. J. B. Nixon

Polsinelli, Claudio (Yorkview L) for Ms. Collins

Clerk: Arnott, Douglas

Clerk pro tem: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

Mishchenko, Nick J., Director, Special Assignments Branch

Bordne, Walter, Audit Manager, Special Assignments Branch

From the Management Board of Cabinet:

Sloan, John R., Secretary of the Management Board

Brown, Robert T., Chairman, Advertising Review Board

Sellen, Shirley, General Manager, Advertising Review Board

Jordan, Michael, Executive Co-ordinator, Management Policy Division

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Tuesday, April 11, 1989

The committee met at 2:11 p.m. in committee room 1.

PROVINCIAL AUDITOR'S REPORT
(continued)

Mr. Chairman: I call the committee to order. We will be dealing this afternoon with section 2.4 of the Provincial Auditor's report. With us is John Sloan, Secretary of the Management Board. Robert Brown, chairman of the Advertising Review Board, is the grey-haired gentleman.

Mr. Ballinger: That is a nice way to be described, is it not?

Mr. Chairman: This is Michael Jordan, executive co-ordinator of the management policy division, and Shirley Sellen, who is the general manager, Advertising Review Board. What I would like to do is ask Mr. Archer and his staff to summarize some of their chief concerns. Following that, I will give Mr. Sloan and the others any opportunity they wish to reply and then throw it open to questioning by the members of the committee.

Mr. Archer: I might just give a brief synopsis of the situation and leave the rest to the question period. In this particular audit of government advertising, we examined advertising expenditures across six ministries, including the Management Board secretariat. Collectively, these six ministries spent about \$30 million in the fiscal year 1988.

Overall, we found that there was a general lack of regard for economy in the acquisition of advertising goods and services. We also found that the efforts on the part of ministries to evaluate the results of advertising projects were quite sparse. With specific regard to the Management Board secretariat, we examined and reported on the ethnic advertising procedures and on the agency's selection procedures, which involve the Advertising Review Board.

As far as the ethnic advertising was concerned, we noted that the required circulation information was not being provided to the Management Board for most of the publications that were involved. This point, the lack of circulation information, which has a direct bearing on the advertising rates, was also noted in our previous audit and reported on in our 1983 auditor's report.

We also observed that the distribution of that ethnic advertising was disproportionate, in our view, to the population numbers by particular ethnic group. One other feature noted was the wide range in the cost of advertising in different ethnic publications.

Concerning the agency's selection procedures, we found that a good system was in place. However, we were unable to audit the system through to its conclusion in the six instances in which we attempted to do so, because the system did not retain the documentation, the analyses and so on made at the various stages in the process, so we were unable to satisfy ourselves at

an audit standpoint whether this apparently good system was actually being exercised and practised.

One last point that was noted with respect to the Management Board secretariat, and involved the agency of record rather than the Advertising Review Board, was the lack of diligence in identifying early payment discounts on media purchases, with the result that in our test something as low as 20 per cent of discount moneys available were actually being realized.

That is just a quick summary of our overall findings and the specific observations made with regard to the Management Board secretariat.

Mr. Chairman: Thank you, Mr. Archer. For the sake of our guests, we have been briefed. The committee was briefed this morning by Ray McLellan who is our research person with the committee at the present time, and he sits one over from me, and also by Nick Mishchenko who is the director, special assignments branch, and is sitting on Mr. Archer's immediate left, and Walter Bordne who is the audit manager for the Provincial Auditor of Ontario.

Comments from the ministry?

Mr. Sloan: Maybe at the outset I will deal with the audit of Management Board secretariat. As you are well aware, and as the Provincial Auditor has just indicated, there were findings that although there was a systematic process in place for the selection of agencies, in a majority of files examined there was a lack of documentation.

I can assure the committee of two things. First, rectification of the documentation has taken place since the Provincial Auditor pointed that out to us. I further assure you that as he pointed out in his report, the documentation, particularly as to the criteria used in shortlisting agencies, was in place. I can tell you that from personal experience because I have sat in as a member of the selection committee on some of the agencies being selected. Obviously, Mr. Brown, the chairman of the Advertising Review Board, sits on all the competitions. As far as documentation is concerned, that process has been emphasized, not only internally through the ARB but with the ministries at large.

I think, Mr. Archer, that in a post-audit of your audit, you would find that not only does the process continue to be in place, but that the documentation is now there in the files during the selection process, albeit whether it is conducted through the Advertising Review Board or, at contracts under \$500,000, by the ministries themselves.

With respect to the whole area of the ethnic press and the costs and our policy to place ads in as many ethnic publications as we can in order to communicate to the ethnic community, to the multicultural diversity we have throughout the province through that medium, we recognize that the costs, obviously, because of the circulation—the circulation varies from publication to publication. You are not in a situation where you are placing ads with any of the major Toronto dailies where because of their major circulation, you are dealing with different line rates. We have not changed or altered that policy. It is a premium one pays to communicate via the ethnic publications.

With respect to the fact that there were a number of ethnic publications that had not filed either a copy of their printer's invoice or at least an affidavit with respect to their circulation, as was indicated in the response to the Provincial Auditor at the time, we have indeed communicated with the 39

publications that had not filed the appropriate papers with the Advertising Review Board. All, with the exception of 16, have now filed and therefore 16 publications are not receiving government ads through the ARB.

Mr. Chairman: Further comments? Does anyone else of your delegation wish to add to that, Mr. Sloan?

Mr. Sloan: Can I suggest we leave it at that and then see how—

Mr. Chairman: Fine. I have two people on my list to start off: Mr. Pouliot, followed by Mr. Adams.

1420

Mr. Pouliot: I am advised by the Provincial Auditor's office that you were audited some four or five years ago. Is that correct?

Mr. Sloan: Yes.

Mr. Pouliot: I am also advised that in terms of monitoring compliance on recommendations, you certainly did not set some records, and that the method, style and approach of your endeavours changed little during those four or five years, that the omissions that were uncovered in 1988 in this report were pretty well the same thing. Are you satisfied that you monitored compliance with the recommendations of the Provincial Auditor after the 1984 audit?

Mr. Sloan: As of this date, I am, yes.

Mr. Pouliot: You are quite satisfied with that?

Mr. Sloan: Now I am, yes.

Mr. Pouliot: Of course, if you have monitored compliance after 1984, you feel the taxpayers were indeed getting full value for money?

Mr. Sloan: From where we sit today, yes, although obviously the Provincial Auditor has in instances within ministries, let alone within his audit of Management Board secretariat, uncovered certain instances where one would only have to agree that steps would have to be taken within a particular ministry to rectify that situation immediately.

Mr. Pouliot: I have a clipping from the Toronto Star dated March 26 or March 27, 1987. It talks about reduction in advertising, both at the provincial and federal levels. It puts Ontario as the seventh-highest spender on advertising. I think it is behind Blue Light, Labatt's, the people who had better years such as General Motors and so on. Was there any reduction experienced at the provincial level from, let's say, 1985 or 1986 in terms of total advertising?

Mr. Sloan: I did not bring all the figures with me, but to give you an idea, in 1984-85, if we are talking about direct media expenditures, the government would have expended, in rounded figures, \$18 million. That is in fiscal 1984-85. I am talking about direct media expenditures, and that is exclusive of Ontario Hydro and the Ontario Lottery Corp. If you added those in, you would be talking about \$34.5 million in fiscal 1984-85.

If you went to 1985-86, you would be talking about direct government

expenditures in media of \$15 million. Including the lottery corporation, you would add another almost \$15 million, so it was at \$30 million in fiscal 1985-86. That was a year of a downturn, when you are comparing apples and apples.

Miss Sellen: May I make a point? The Toronto Star, I believe, uses as its base Media Measurement Services figures, which are based on a calendar year and which include lottery spending and Hydro.

Mr. Pouliot: The taxpayers understand that very well, thank you; the overall sum. That is why they sell newspapers: They are able to focus. Suffice it to say that during the same year, 1986, be it the calendar year or the fiscal year, the feds were able to reduce their advertising expenditures from \$71.4 million to \$63.7 million. My question is, if they were able to do it, were you just as meticulous in your efforts to imitate the federal government, your counterpart in seeking areas where you could lessen the expenditures in terms of advertising?

Mr. Sloan: I do not mean to be facetious, but it was never our intention to emulate the federal government. I can guarantee you that annually, if not in some other instances more than once annually, one does look at expenditures and particularly emphasis on advertising and communications. As program needs and new initiatives become policy and are in place, in some instances advertising or at least communications are required.

I can assure you, Mr. Pouliot, at least from Management Board's perspective, that there is an overview and a look at expenditures year by year. The board most recently has spent a considerable amount of time looking at expenditures in preparation for 1989-90 with respect to advertising and communications.

Mr. Pouliot: Mr. Chairman, if I may, I have a few brief questions concerning a film that I am sure we have all shared: The Conserving Kingdom. In fact, it is quite a saga.

Mr. Ballinger: What year was that, Mr. Pouliot?

Mr. Pouliot: A curse on both your houses, Mr. Ballinger. I will not interrupt you when you have the floor.

Mr. Ballinger: I just want the year qualified.

Mr. Pouliot: The Conserving Kingdom is really like a horror show. Again, on the major theme of taxpayers getting value for money, the terms of reference, the specifications, were sent to six film companies. Why was the highest bidder selected?

Mr. Sloan: I am not too sure, Mr. Chairman, that is not more appropriately asked, at your session tomorrow, of the Deputy Minister of Energy.

Mr. Chairman: That would be the Ministry of Energy.

Mr. Pouliot: I look forward to it. On the subject matter of spending, you are to be commended that you were able to reduce from \$34.8 million to \$29.3 million with pretty well the same impact. You are to be

commended on that performance. Thank you, Mr. Chairman. I have no more questions.

Mr. Adams: Mr. Sloan, this business of advertising in the ethnic media is very important to the government. It seems to me that we are going to great lengths to try and communicate with the ethnic groups as much as we can. I am interested in the assertion that there is a disproportionate distribution in advertising between the different groups. I was wondering if either you or Mr. Archer would care to comment on that. I would not expect the distribution of advertising to be proportionate between the different groups; in other words, proportionate to population.

If I could give some examples, I could well imagine that there might be two groups of the same size, but one might be much more well established than another, would have been here for a longer period of time. Therefore, I would expect the one that has been here the longest to have developed more media outlets and to be more advanced, if that is the right expression—it probably is not—than the other one. Therefore, the advertising would not be distributed proportionately between those two.

Another example would be that there would be two groups of the same size and the literacy level—this would be in the written language of the group concerned—might be quite different in the one case than the other. Therefore, again, in the case where the literacy level was high, there would be more media outlets developed and so on.

I wonder if either of you would care to comment on that and whether the suggestion that it should be proportionate is an appropriate one.

Mr. Archer: I think what we are doing is just suggesting that situation be looked at. You would think there would be some correlation between the population you are trying to serve and the number of publications you are advertising in. We pointed out some situations where a relatively small percentage of the population had an unusually large number of publications and they advertised in all of them.

The inference seems to be that the government will advertise in any ethnic publication, that anybody who is contemplating developing an ethnic publication can do so with the assurance that at least it will have some government advertising. Maybe that is not the best way of going about getting the government's message across to the ethnic population. We are not saying categorically there should be a direct correlation; we are saying it is something that is worthy of a look.

1430

Mr. Adams: There was some sort of correlation, though. To give an example, I believe the East Asian community is supposed to be, in terms of diplomas, the best-educated portion of our population at the present time. For their numbers, I would expect them to have far more media outlets than some other group. In other words, I would not expect it to be proportionate.

Mr. Archer: That may well be. What we are saying is we do not think there has been any attempt to correlate or see whether any disproportionate situations are justified in the circumstances.

Mr. Adams: The other suggestion is the variation in price. Can I

assume that you have looked into matters like circulation, readership and so on, and that there is no relationship between price and those?

Mr. Archer: The point on price is probably best illustrated by the comment we made that—this is for the four ethnic groups with the largest number of publications—the average cost of an advertisement per group ranged from \$53 to \$125 per 1,000 copies circulated. That seemed to us to be a wide range for a cost of the same ad serving a given number of people, 1,000 copies circulated.

Mr. Chairman: Mr. Sloan, would you like to address that?

Mr. Sloan: Obviously, I would not disagree with the range as indicated by the Provincial Auditor. However, as I indicated earlier, currently, at least, it is the government's view that in order to reach out to the broadest groups available by using the some 160 ethnic publications, we recognize that we are paying a premium. Ethnic group A may have four separate publications and be in separate locations and, because of individual differences in circulation, charging different rates. We recognize that if one dealt with a cost-benefit analysis between that and how one pays via circulation rates in daily newspapers across Ontario, we are indeed paying a premium.

Mr. Pouliot: I have a supplementary on that matter. Bear with me. You know, life is short as it is. We will be okay.

You have circulation guidelines. How would you explain that the report will attest that fully 48 out of the 202 ethnic publications did not adhere to your circulation criteria?

Miss Sellen: We now have only 160. We have cut our list considerably. We have all the new criteria on record for those publications. We started out a number of years ago with 200, and we have slowly been adjusting that. It is very difficult to think in terms of, say, duplication in these publications, because each serves a very specific group within the language group.

Mr. Pouliot: To come back, the point is well taken, but I was trying to be consistent and most reasonable. You use your circulation rate as a guideline, and why not? That is the way it should be. Yet, 48 out of 202 that you have chosen to spend taxpayers' money with do not comply, so the common denominator does not hold in this case.

Miss Sellen: We are now looking at them again. As a matter of fact, just today we had one publication that asked us for double the rate it had been getting last year, and we have already refused that, based on the circulation criteria that we have. We will be continuing to do that.

Mr. Pouliot: Okay. Thank you.

Mr. Adams: Mr. Chairman, I am not sure that was a supplementary.

Mr. Chairman: I judged it as a supplementary.

Mr. Ballinger: You are so polite, Peter.

Mr. Adams: Thank you. What I was trying to get at, and I certainly do not want to appear to be kind of defending doubtful practices or anything

of that sort, but to use an example in my own community where the numbers of the ethnic groups are very small, among the Polish group there are three distinct groups. Those three groups exactly reflect dates of arrival. Here is this tiny group in Peterborough riding and there are three groups and they might well, although they actually do not, have three publications.

What I am trying to get at is the volatility of this group of media, the fact that I would expect there to be transient publications coming and going, perhaps not well organized and so on. The importance of dealing with them, as well as the importance of dealing with them properly is what we are discussing here. That is really what I was trying to get at, whether it was fair to simply say, "The advertising doesn't seem to have been allocated proportionally between them in terms of their numbers in the population of the province of Ontario."

Mr. Sloan, I do not know if you would care to comment on that because it seems to me we should be looking for sound accounting practices—or whatever the expression is—at the same time as trying to deal with these often tiny media outlets.

Mr. Sloan: In essence, that is why our policy with respect to placing the ads in ethnic publications is done the way we have done it. I think it is only fair recognizing, as you have indicated, the diversity of the types of publications and the diversity of the locations of publications for individual ethnic groups. If one has made the decision, and wisely, that one would let the people of the province know, let alone special ethnic groups, that there has been a major shift in legislation, then you would want to reach out to all people in the ethnic communities via the ethnic press.

Mrs. LeBourdais: When the government has a message—I am not thinking of a tourism message, but for instance at the municipal level when garbage collection is going to be moved to a specific day—where the message must get out by way of a public service, are you required to use all print media or do you again have a choice?

Miss Sellen: It would not necessarily go to all media. It very much depends on a ministry's budget. What may happen is that if there is a special notice, a ministry may not have a sufficient budget to cover all media. But knowing how important that particular message would be, they would contact us and through the government information and communication program, we would be able to fund an advertisement for them. We would definitely go into all available media, both third language and English and French community newspapers. We would do that from our own budget, which is available.

Mrs. LeBourdais: Do you use print publications that have paid circulation exclusively or do you use those with unpaid circulation?

Miss Sellen: As far as third language is concerned, unfortunately it is very hard to find publications with sizeable paid circulation. In community newspapers it is possible, but if a government message is that important, then all newspapers in that community should get that message because, again, there is a certain fragmentation within a market.

Mrs. LeBourdais: It is surprising to me to hear the demands that some of these papers are putting on you, be they ethnic press or just local papers. I am not talking about the major dailies; I am talking about small

papers. Their need for you is substantially greater than your need for them, if we can get right down to business on it.

Miss Sellen: Agreed.

1440

Mrs. LeBourdais: I am wondering, therefore, why you cannot, within reason, name the deal when it comes to buying space.

Miss Sellen: In some circumstances, we have been able to deal, particularly with the community newspapers. We have talked to them, we have talked to the Ontario Community Newspaper Association and we have been able to make, based on volume contract, some consideration on the rate and the type of increase. Papers usually once a year, but some every six months, will try for rate increases.

In third-language papers, it is a little more difficult. Frankly, we do have some language problems in negotiating with them. As I mentioned earlier, one this morning, really, I think, indiscriminately wanted to double its rate, which would have brought it in line with one of the Toronto dailies and the rate we are paying currently for over 200,000 lines of advertising.

Mrs. LeBourdais: Another question now, on the people who on behalf of the secretariat or other ministries actually do the purchasing. Can you give me an indication of the personnel you have, what their background is, where you tend to get these people from? Do they come up through some marketing route, do they come from other ad agencies? How do they get their training to give them the necessary expertise to buy media professionally?

Miss Sellen: All our media is bought through Canadian Media Solutions, which is the media arm of McKim Advertising, and those people are professional media buyers and negotiators.

Mrs. LeBourdais: But at the government end, do we not have to have someone here who recognizes whether McKim has done a good buy for you or not?

Miss Sellen: I do not really feel qualified to comment on that. I personally have a background of many years in advertising agency business, and most of that as a buyer. So within my own area, I can fairly well assess what needs to be done, but as far as the other ministries are concerned I really could not comment.

Mr. Sloan: I think one of the checks and balances there, too, is that the planning agency for the ministry is an advertising agency that has done the creative and then the agency of record is placing the ad, if you will, for the ministry; that is a check and balance to make sure there is the best purchase. Of course, we view annually, in consultation with the ministries, how we have been doing in buys and how much we are spending ministry by ministry on acquisition.

Mrs. LeBourdais: I am just wondering too, then, do we pay the various ad agencies a fee over and above or do they simply take their 15 per cent for the buy? Do they get 15 per cent plus a fee from us?

Miss Sellen: No. Planning agencies working for a ministry get a portion of the media commission. Their portion is 12.75 per cent. Part of that commission, 1.8 per cent currently, goes to McKim for its service in doing the

actual buying. You might look at McKim, really, as a purchasing agency function. The planning agencies, of course, have to do the planning. They have to know their media.

Mr. Pouliot: I am just curious, has McKim's share of the overall budget increased over the past few years or is it the same as it was before? If my memory serves me correctly, there seemed to be a four- or five-way split at one time. Everything goes through McKim, right?

Miss Sellen: All the media buying goes through McKim.

Mr. Sloan: It acts as the agency of record for government purchases.

Mr. Pouliot: Some of those papers should be more meticulous and certainly kinder to people. It was referred to as, "Liberal firm gets contract." That is where I got it; I think someplace there. In fact, "Liberal firm handles \$9.9 million in tourist ads," and it says here that there used to be quite a different split. Anyway, that is just for the gallery, I guess.

I have just a brief question, Mr. Chairman.

Mr. Chairman: I trust that was not a question you expected a public servant to answer.

Mr. Villeneuve: He is thinking out loud.

Mr. Pouliot: No, I am very kind, Mr. Chairman. You have so many papers and so on. The name was mentioned and it just—

Mr. Chairman: I imagine Management Board will have an exciting set of estimates with some of your questions.

Mr. Pouliot: It seemed that I had read it someplace.

I have a question on the same serious note regarding the ministry's production of advertising that was not used: \$1,900 and \$7,200 total costs. It was indicated in the auditor's recommendations. In your ministerial response, I fail to see any monitoring of compliance in terms of money.

Mr. Sloan: Which ministry was that?

Mr. Archer: The Ministry of the Environment.

Mr. Pouliot: Environment again, so I will wait. Sorry.

Mr. Villeneuve: I heard on the CBC recently that approximately 1,000 bilingual positions were still unfilled and advertisement was now going into Quebec. Do you have any jurisdiction over this?

Mr. Sloan: Not directly, no.

Mr. Villeneuve: Who would be looking after that?

Mr. Sloan: I am sure it would be individual ministries, directly.

Mr. Villeneuve: Would they be dealing through an ad agency

purchasing for them, or would they be doing it, as you say, directly with their advertising?

Mr. Sloan: Could be. It would depend on the extent or the magnitude of the advertising. If they were in Quebec, going into all dailies and all weeklies, whatever the situation may be, they may come through the Human Resources Secretariat, which is responsible for job ads, in order to place that ad.

Mr. Chairman: Since I have nobody on my list, I guess I am allowed to ask a few questions myself.

You will notice that the auditor's report deals not just with Management Board but a number of ministries that it considers to have some problems. My question to you is this, and if you consider it a policy question, please say so and I will understand.

You have had some experience for a few years now with the guideline of the \$500,000 or over being the amount that Management Board has to kick in through the Advertising Review Board. I am wondering, considering the fact that there is such a number of ministries that have been named in this 1988 report by the Provincial Auditor, is there any thought to perhaps reviewing that \$500,000 with a view towards possibly lowering that amount and therefore exercising more supervision over the various ministries in this regard?

Mr. Sloan: The \$500,000, you do understand, is \$500,000 over a three-year period, which really means it is, in essence, lower than \$500,000.

Mr. Chairman: Yes, but you will admit that most of the ones that are covered here have not, in fact, been before Management Board or the ARB. You have not looked at them, because the \$500,000 exempts them.

Mr. Sloan: It is fair to say at the moment that we are not reviewing a lowering of the \$500,000. The corollary to that, however, is that because of the corporate look at advertising by the Provincial Auditor, we have underlined to the ministries the importance of rectifying the situations that have been identified but have taken the opportunity from the centre to also have sessions with all the ministries with respect to our current directive on advertising and creative services.

It is also mandatory, via our directives, that there be tendering and tendering processes for anything in excess of \$25,000, which is a ministerial responsibility. It does not have to come direct to Management Board. There is also, as part of the directive, an annual report on the expenditures with respect to advertising and hiring of advertising agencies as overseen by Mr. Brown.

Mr. Chairman: How much time in that total review would be spent on advertising? That would be a very small portion of the total individual ministry budget, would it not?

Mr. Sloan: Small but important.

Mr. Chairman: Are you saying you are going to spend more time or you are spending more time? Will you be spending more time on this now as a result of the auditor's report?

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Mr. Sloan: I can assure you that during our current estimates review on allocations process for 1989-90, we have spent more time on advertising and communications since I have been Secretary of the Management Board.

Mr. Chairman: One of the things that Patrick Reid always used to complain about was the revolving-door deputy minister. I wonder, though, if you could give us some indication of why—and I realize that you may not want to be too punitive of your predecessors—this report essentially deals with the same matter as 1984.

Your answer to Mr. Pouliot was that now you are complying with the concerns of the Provincial Auditor. So you are complying with the 1984 report after the release of the 1988 report, and I am wondering if you have any insight as to who is responsible for it taking a second report to get compliance with the first report.

Mr. Sloan: No, other than to say that the locus of the Advertising Review Board was in the Ministry of Tourism and Recreation at its inception, and the time period between the audit and the transfer to Management Board probably could account for some of that.

Mr. Chairman: You gave an indication that—and maybe Miss Sellen should address herself to this question— as a result of the complaints of the Provincial Auditor, this time you sent out the guideline material to the various ethnic newspapers, and a large percentage of them complied as a result of your letter of October 7, 1988. This was your October 7 letter?

Miss Sellen: I believe that was the first one, yes. There were three.

Mr. Chairman: Okay. But you initiated it on October 7. They have essentially complied, and those who did not comply are now cut off from your list. Can you give us any indication of why they did not comply originally? Have you any insight into what went wrong that there was not compliance, that it required two Provincial Auditor's reports, followed by three letters, the first one being on October 7, for you to obtain compliance from the majority of these newspapers?

Miss Sellen: Some of them were cases of papers that had moved; some had new publishers. We ran into some situations where there was a language difficulty. They received our material but did not fully understand it and, unfortunately, rather than trying to get in touch with us right away, they shelved the material. As I say, we did send out three different requests over a period of about six months.

Mr. Chairman: Has there been any follow-up on your part to ensure that the information that you are obtaining is factual information now? When people fill out the form, one assumes that they are honest people. If they are journalists, one would hope they would be honest. But is there any attempt to monitor or do a follow-up or spot-check to find out whether or not that is the case?

Miss Sellen: Yes, we will be doing so. It is our intention to request this material to be updated at least once a year. Certainly, when a publication comes to us with a rate increase, it is very important that we look at the information that it has given us.

Mr. Chairman: What avenues are open to you in the event that somewhere down the line you find that a newspaper has misled you in the information? Can you go to the Attorney General and lay fraud charges, or would you go through a civil action to recover some of the advertising money? What would your procedure be if six months from today it is discovered that you have really been taken by one of these papers; that you have been misled in the information that it has been providing you?

Mr. Sloan: Once that happened, we would immediately go to our own ministry lawyer to seek advice, which could take us a number of routes, depending on legal advice given to us by our solicitor.

Mr. Chairman: Mr. Polsinelli might want to follow up on this, because he knows more about the law than I do. Would it likely result in criminal—

Mr. Ballinger: We know he is a lawyer, but nobody is saying he is a good lawyer.

Mr. Chairman: Anything I have heard from him compared to other lawyers I have heard from in this House seems to indicate that he knows what he is talking about on matters of law, if not on matters of politics. Would you likely go for criminal charges or civil action to recover the money? Do you have any idea?

Mr. Sloan: No, I would not care to comment. It is hypothetical at the moment, and I would want to know more of the circumstances.

Mr. Pouliot: Would it not be better in some cases to, let's say, adjust the last invoice to the tune of around \$5,000, as was the case with the film production? I am sorry; I am saving that for the Ministry of Energy.

Mr. Chairman: I guess my concern is that it seems to me that sometimes an action on one person has a very sobering effect on compliance by a number of other people. I was just wondering what action you would consider.

Mrs. LeBourdais: Mr. Chairman mentioned the word "journalism." How do you, from your guidelines, have to define a newspaper? In other words, we all know that many entrepreneurs have a printing facility, and often an ethnic newspaper, in the local community that they use as a vehicle for simply getting printing business. Do you have a minimum circulation? Do you have a minimum definition where they must have an editorial staff? How do you define newspapers for the purpose of giving out a government contract for an ad?

Miss Sellen: We would want to ensure that they had an editorial content. In other words, something like eight pages of want ads would not give us an editorial content. It is somewhat difficult to determine the extent of the content in a third language, but we do have an ethnic advertising agency, an agency of record, and it has expertise in a number of languages.

When publications come to us and seek advertising, we take a look at them. We want to look at the quality of printing, for one thing. We want to look at the makeup of the publication. We want to know that they are publishing regularly. If in fact it is a weekly, then it should be publishing every week, not waiting until there is a group of either federal or provincial advertisements that make it lucrative to put out an issue.

The people at the ethnic agency of record do have personnel who can assess the journalistic quality of the publication.

Mr. Pouliot: As a point of interest, the riding that I have the honour of representing is made up in part, and I am talking here of 17 per cent to 18 per cent, of constituents who speak as a first language either Ojibway or Cree. I wonder under which heading—because I did see the ethnic press, French and English—those people would come when you advertise in Ojibway and get translations in Ojibway or Cree for the Wawatay News?

Miss Sellen: We have English, French and native Indian.

Mr. Pouliot: So if I were to look for an account, I would go to our First Canadians and it would come under the native Indian indexes, would it not? Okay.

Mr. Adams: I have to say that of the material we have dealing with the other ministries under this aspect of the auditor's report, I approach this one differently than the others. I would simply like to get that on to the record.

While I think that the committee should very vigorously follow up the recommendations that have been made in this report and in previous reports and while I think that the board should establish proper practices in dealing with the ethnic media, I also think that we really should publicly recognize the difficulty of dealing with this particular set of media and the importance of this particular set of media at the present time.

1500

I would like to read into the record a part of the board's response. It says:

"Ethnic newspapers cannot be measured in terms of cost efficiency on the same basis as English-language newspapers, whose advertising costs per thousand are proportionately lower due to their mass circulation. It is necessary in the case of ethnic communications to use all publications available to language group, in order to effectively reach a majority of people in that group."

I think that that paragraph contains a sense of what I am trying to say, that here is a group we must communicate with. I recognize that it is difficult to deal with them. I hope that the board will develop more stringent practices but I hope that it will continue to do all that it can to reach these particularly important media outlets.

Mr. Chairman: There is one question that I did have, and perhaps you can help me, Miss Sellen: Is there a difference between a cultural newspaper and a religious newspaper, and when you get into certain languages, is it at all possible to separate that difference? Culture and religion are so intertwined with some groups of people, I would imagine it would be very difficult to see whether you are in fact subsidizing a religious publication in one culture, while you would not be in another culture. Is that correct?

Miss Sellen: That is correct.

Mr. Chairman: Is it possible to do that or is it just impossible in certain groups?

Miss Sellen: I think, over the years, our experience has been that we can pretty well recognize the language groups that are very closely allied to their religious leaders and that any publications that are in general circulation would certainly be of a religious type.

Mr. Chairman: Are there any criteria whereby you would remove a newspaper, such as the advocacy of violence against another group or a certain political slant that may be less democratic than what we are used to? Are there any criteria of that nature that would make a particular newspaper unacceptable for government advertising?

Miss Sellen: I think if we discovered something of that nature, we would have to again seek counsel from our legal advisers.

Mr. Chairman: But you are saying that there are no such criteria now?

Miss Sellen: There are no written criteria, no.

Mr. Chairman: Has it ever been brought to your attention that any particular publication should not be sponsored or advertised in because of a particular political or philosophical slant?

Miss Sellen: No, it has never been.

Mr. Chairman: Are there any other questioners? Mr. Archer, would you have any further comments?

Mr. Archer: I might just ask a question, I guess, with regard to the paragraph that Mr. Adams read out. The last sentence of that paragraph reads, "It is necessary in the case of ethnic communications to use all publications available to language group, in order to effectively reach a majority of people in that group."

I wonder if that is the case with ethnic groups. Is it not the case with nonethnic groups, and on what basis has that conclusion been reached? It certainly opens the door wide and almost takes off any control over limiting the extent of advertising in ethnic publications. I just wonder what the basis for that is, and whether it also applies to nonethnic communications.

Mr. Sloan: No, it does not apply to nonethnic communications, but, as we attempted to indicate earlier, the state of the union at the moment is there are 160 ethnic publications we deal with directly and, because of the variety of the makeup of the publication, i.e., circulation and geographical location, it is the current policy that, where possible, based on circulation, printers' invoices, we would place certain government ads in those publications, which is a lot different than determining the reach you would want for print advertising or a tourism ad dealing with major media in major urban areas, both domestic and foreign.

The situation is evolving in that area, and I am sure the board will continue to review its advertising policies with respect to ethnic. I am just reaffirming to you what the current policy is, and the reasons why.

Mr. Chairman: Are there further questions? I wonder if I can review with you some of the auditor's concerns, then, concerning the advertising

agency selection procedures. Your response was that the selection of advertising agencies is based on creative and service capability demonstrated by the companies competing for a contract.

Can you tell us exactly what criteria you have for judging the creative and service capability?

Mr. Brown: That is done in our competition process. It is done through asking the agencies to present to us—not on a speculative basis, in other words, what they will do for us if they are awarded the account—but asking them to provide us with information and displays and so on, that illustrate what they have done. So, we are getting a view of the kinds of things they have done for other clients. In our thinking processes, we have to translate that to how that fits the particular ministry we are looking at for the new agency.

Mr. Chairman: So, you are saying it is kind of an intuitive process: you ask them what they have done before, in the same way as if I wanted to hire a contractor to build a house, I might ask him if I could see a few houses he had built, and, if I was happy with his houses versus the house of the guy-next-door, then I might choose that contractor over another. Is it that kind of gut-sort-of-thing? There is nothing objective—

Mr. Brown: Partially. Prior to the competition, though, the agency has been given the criteria that the ministry is looking for in their new agency, and also they are given a list of about 12 or 14 questions that, between the agency and the Advertising Review Board, have been decided are kind of make-or-break questions, to which we need to know the answers to be able to make the decision.

So we have that data ahead of the competition, and then, at the competition, as I mentioned a moment ago, they have been asked to present to us, on the basis of examples of their work in the past, similar kinds of problems, but how they have handled those in the past.

So we are working with some written data, and we are also working with presentation data at the competition, as the basis of our decision-making as to who wins the competition.

Mr. Chairman: Now, it has been pointed out to us that a number of the agencies in fact subcontract work out in various ways. What ways do you have of monitoring: one, that they are not being overcharged, and therefore you are not getting a pass-through on anything from creative work to perhaps the most simple of lithographic—I hope the lithographers do not come after me, because I am not suggesting they are not creative—fairly straightforward, simple kinds of reproduction things, all the way up to some advertising creative geniuses, some sort they might subcontract out to?

What ways do you have of ensuring value for money, that you are not experiencing pass-throughs that are out of hand or that the quality of the work is not what you had originally agreed on with the agency you contracted for the work?

1510

Mr. Brown: May I back up one step? Then I would be glad to answer your question. In the competition as well, if there is an indication in the agency's written submission that it is working with another agency or agencies

to get its work done, we press in very thoroughly on that at the competitions to really get hold of just what this relationship is.

But once the agency is selected, the value for money factors and so on would, I suggest, be the job of the ministry hiring them. We do not see those invoices and do not get into that end of the policing part of it. Once we have helped the ministry choose its agency, then the agency and the ministry are the partners who would deal with the issue you are raising, or should be dealing with it.

Mr. Chairman: Would you build into your contract with the ministry that it would have to have a monitoring and follow-through process of some sort?

Mr. Sloan: I am not sure it would be an integral part of the contract between the ministry and the agency selected, but it is inherent ministry management practice to be viewing that from an internal audit standpoint. There is a policy to cover subcontracting via an advertising agency being selected.

Again, the Provincial Auditor has found cases where that policy has not been adhered to, where the current policy is that anything in excess of \$2,000 in a subcontracting should be tendered by the advertising agency.

Mr. Chairman: You are saying that the internal audit function which you are responsible for facilitating as Management Board to the individual ministries has apparently not been working too well, or otherwise they would not be in this situation.

Mr. Sloan: Or it was not in their audit plan to be auditing advertising and communications in that particular year or was not attended to if it was dealing with the processing of invoices through the financial branch, which is on the fiscal side of the ministry.

Mr. Chairman: If in a year's time we were to be looking at Management Board to find out what it was that you had done to correct that problem within the individual ministries, what could we expect to find?

Mr. Sloan: To correct which?

Mr. Chairman: The internal audit problem that seems to have resulted in some of these problems.

Mr. Sloan: I am not too sure I would view it as an internal audit "problem." As you are well aware, internal audit is not, as is the Provincial Auditor, auditing everything within a ministry in one fiscal year. If tomorrow you were to be in discussion with ministries, you will find that Management Board has followed up on the Provincial Auditor's audit in advertising and communications, as we are continually having discussions with ministries.

We were well aware, because the Provincial Auditor shares the individual audits of ministries with me as secretary of Management Board. I am well aware, and my staff are well aware, of the responses that go back to the Provincial Auditor before the final report is undertaken.

Mr. Archer: Just to maybe amplify the comment a little bit, I think Mr. Sloan is saying, and we certainly subscribe to that, that it is a management responsibility within the ministry to make sure that these

advertising contracts are administered correctly, not an audit responsibility. Audit comes along periodically. You see if management is doing its job. What Mr. Sloan is saying is that Management Board has reminded management of their responsibilities in this area, and I think that is about all it can do.

Mr. Chairman: What I think you are also saying is that, unlike perhaps Treasury Board in certain jurisdictions, you are not doing a direct follow-up. You are acting as a warning system, but you are not going to go in there yourself and make sure that there is an internal audit to find out that it is being done.

Mr. Sloan: No, that is right, because of the way government is structured here. Our structure is different.

Mr. Chairman: I do not want to have a long debate with you on that. I have had one with the minister.

Mr. Sloan: I know we are going to be talking about that later, not today.

Mr. Chairman: I disagree with your model.

Mr. Ballinger: We did not notice you were disagreeing.

Mr. Chairman: Well, then you must not have been there for the estimates or you would have seen it.

Mr. Pelissero: I have just a question for clarification. You mentioned that on any subcontracted or tendered out job from an agency over \$2,000, there is a competitive bid. Is that the figure you used?

Mr. Sloan: That is what I said, yes.

Mr. Pelissero: That message did not come across clearly this morning when we were briefed by the researcher. We were under the impression that there was not—

Mr. Pouliot: When did that change? I got that impression as well.

Mr. Pelissero: This morning when the researcher briefed us, we were certainly left with the impression that it was a wide-open process and that it was whatever the agency in turn wanted to pass on through. If that is different now, I think that is important to highlight. It is \$2,000?

Mr. Sloan: In the example used, where an agency, having been hired by a ministry, is subcontracted, as the Provincial Auditor determined in a couple of ministries, it should have a competitive bid if it is in excess of \$2,000.

Mr. Pelissero: So that \$2,000 is a guideline figure that they have.

Mr. Sloan: Yes.

Mr. Mishchenko: That is correct. There is the guideline and most contracts are \$2,000. The problem is that it is not adhered to in many instances.

Mr. Sloan: If I may add, Mr. Chairman, what the ministries are telling us at the moment, and they are hearing it from their agencies, is that the \$2,000 is too low and at the moment we are reviewing that. I am not saying that it will change, but the \$2,000 on a subcontracting basis appears to them to be low and we are now reviewing that.

Mr. Pelissero: My only point was that had you not raised the \$2,000 figure in terms of a guideline, that was not brought up this morning in terms of the briefing that there was in fact was any kind of guideline. If the issue is that the figure is too low and ministries are just simply ignoring it because of the agencies saying it physically cannot be done, that is another issue that has to be resolved, as opposed to certainly leaving me with the impression that there was not any guideline at all. That is all the point I was trying to make.

Mr. Pouliot: How much money is spent each year on employment advertising?

Mr. Sloan: I guess it would vary from year to year. I do not have the specific figure here, but I would estimate approximately \$3 million to \$4 million.

Mr. Pouliot: And that really does not change all that much? It is fairly constant, is it not?

Mr. Sloan: I do not have those figures in front of me. In the last couple of years it would be in the order of \$3 million to \$4 million.

Mr. Pouliot: So it is a constant \$3 million or \$4 million.

I think there was a question in the House by the leader of the third party, Mr. Brandt, regarding a job position in a Toronto paper—maybe you can help me with this, Mr. Sloan. I think the job was for a computer specialist, and it was advertised. The job paid around \$30,000. You know the ones that say "salary under review"? It paid around \$30,000, and the advertisement costs were about the same as the job. It cost \$30,000 to advertise.

Consequently, when it was raised by the leader of the third party, Murray Elston made a commitment that things would be cleaned up. It is interesting that it was the unanimous consensus of the House that it was excessive and something had to be done. The minister said it would be and now you are telling me that it is pretty well the same thing in terms of advertising costs year after year.

1520

Mr. Sloan: I think we are dealing with two separate issues. I can say that—

Mr. Pelissero: That is a quantum leap.

Mr. Pouliot: I say very candidly, Mr. Chairman, I think the question is logical.

Mr. Sloan: Maybe if I could delineate the two. In my view, since Mr. Elston's commitment guidelines were issued to ministries with respect to the need for advertising in the major dailies like the Toronto Star, all of those considerations have been out in guidelines now to ministries—the size of the

ad, the nature of the recruitment and whether you have to recruit for a computer specialist in the Star, as opposed to other publications.

I openly admitted to you I did not have the figures on job advertising year by year and estimated it to be around \$3 million to \$4 million. One would presume that there has been or could have been an increase in the number of jobs advertised, not necessarily a reduction as it directly relates to reducing the size of the ads.

Mr. Pouliot: Yes, exactly. On the same line, if you will allow me, being of a Spartan and frugal nature—

Mr. Sloan: As I am.

Mr. Pouliot: Of course, as we all are perhaps.

When I take a look at ads, and maybe I speak with a bias and a prejudice, but it seems to me that when I compare the employment advertising from the province of Ontario, it is very prolific in its description, equally prolific in what the demands of the "applicant" are, more so than people seeking similar expertise or similar labour, if you wish. They seem to go overboard.

We do very well, mind you, but we are the largest. I know that the province is a large employer, Mr. Chairman, but notwithstanding that fact, there seem to be a few things that need not be said in those ads. It seems to be a style, that they have one pattern and no matter what they are seeking in terms of employees, that it is being repeated. It does lack, with respect, to me anyway, imagination and innovation in cutting down the costs and the size of some of those ads. Would I be right?

Mr. Jordan: May I add some information? We have had discussions with our colleagues in the Human Resources Secretariat, and when the matter you raised, the concern about the size of the ads was first raised in the House, the Chairman of the Management Board of Cabinet directed the ministries to review their format and content. Since that period of time, it is estimated that it has resulted in a saving of approximately \$1 million in job advertising by limiting the ad to no more than 150 words, which is the present directive from Management Board.

Mr. Pouliot: You are right now that you refresh my memory and I thank you. I think the minister used the words, "Clean up."

Mr. Chairman: I would like to ask Mr. McLellan to clarify the point that arose out of Mr. Pelissero's comments just a couple of minutes ago, because I would not want there to be any misunderstanding by the thousands of people who read the Hansard of today's deliberations.

Mr. McLellan: On the point of the \$500,000, I just want to go back to a point that I had made. Maybe it was skipped over when we moved quickly toward the latter part of our discussion this morning. But on page 19 of our briefing paper, there was discussion under the Management Board secretariat section. There we discussed the requirements in conformity with respect to guidelines and institutional procedures.

I did say, "The Directives manual requires that the Advertising Review Board manage the acquisition of advertising and creative communication for ministries and government agencies where these services exceed \$500,000 over

three years, including the agency of record. The board,"—that is the ARB, "may also provide advice on assistance to ministries and agencies requiring services of less than \$500,000." I think that is where the debate and discussion over the \$500,000 figure might have been a bit confused.

I think what it does say here, then, is that the board obviously deals with contracts below the \$500,000 limit. I hope that clarifies that. As I said, perhaps we skipped over it a bit too quickly.

Mr. Chairman: There is one area that has not been covered and that is the discounts for early payments. I understand it is a standing practice to receive a two per cent discount for invoices for the media portion paid within 10 days. In 1985, the ministries received 95 per cent of the available discounts, while in 1987, which was the year the auditor was most concerned about in his 1988 report, it was down at 20 per cent in the six-month period he studied. I guess my question to you is: What have you done to stop that or reverse that?

Mr. Sloan: In our follow-up to that, we determined that one of the major reasons was that the agency of record was not advising ministries on invoices of the early payment giving a two per cent reduction. Once we determined that, instructions immediately went out from the ARB to the agency of record to rectify that situation. That has now been done. Simultaneously, ministries were reminded of the importance of taking advantage of the two per cent discounts.

Mr. Pouliot: In 1985, 95 per cent of the people were paying their invoices within 10 days, therefore achieving a two per cent discount. In 1987, for a period of six months, that figure had fallen from 95 per cent to 20 per cent. When quizzed for rationale, substance, explanation, you come up, with respect, with the following: The agency failed to notify the respective ministry.

Do you believe that is good enough? They were doing it before and they were achieving a two per cent saving to the taxpayers of Ontario on their billing; because the agency failed to inform the ministries, they stopped doing it. Surely it is a little thin. I would not be satisfied with that answer. It seems to me I would go right back to the ministry and ask: Why did you discontinue that practice? There is a degree of negligence here, because that practice had been in effect. It is not good enough to tell me that you stopped doing it because you were not advised. You knew all along that is the reason you were paying it. Why did you not follow process as previously established?

Mr. Sloan: In essence, that is what we did in the second instances, but I wanted to share with the committee that we did also find out that the agency of record was not, on their invoices to respect ministries, putting it on the invoice. People change within financial management branches of the various ministries. It may be weak but we attempted to rectify that situation.

By the way, we are not very happy, from our perspective, with ministries not taking advantage of the two per cent discount where possible.

Mr. Pouliot: One last question: I would just like to hear your words of wisdom regarding the Ontario government's rule as it pertains to wholly owned advertising firms, that if you are to fill the criteria to get a contract, you must be wholly owned. In view of free trade and mergers and takeovers, how do you see the future with that kind of policy? Is there a

possibility of revision?

Mr. Sloan: We are watching it very carefully, because, as I am sure you are aware, there have been a number of major advertising agencies purchased over the last year or year and a half that would make them not Canadian wholly owned. We have been watching this carefully to see what impact that would have on the existing Canadian wholly owned agencies. We are monitoring that carefully and having discussions with our federal counterparts as well, because their policy, except for crown corporations, is the same as this province's.

Mr. Chairman: A lot of these, particularly the trade publications, are MacLaren publishing. Does that mean you have excluded them? All MacLaren publications are off your list at the moment?

Mr. Sloan: We are talking about the selection of advertising agencies.

Mr. Chairman: Okay. Then MacLaren Advertising would be off.

Mr. Brown: Their contract was cancelled when they were taken over by a foreign company.

Mr. Chairman: Are there any further questions? I recognize that the discounts offered may only be \$100,000 and as a proportion of the total budget it may not be a large amount, but as they say in provincial audit circles, if you save \$100,000 here and \$100,000 there, if you do it 10 times it amounts to \$1 million. I am sure members of the committee will probably encourage the Provincial Auditor to do a follow-up on some of these matters, even the smaller ones, such as the \$100,000 ones.

Mr. Ballinger: We do not want too many media hits, Mr. Chairman.

Mr. Chairman: I do not have the media here. They usually only---

Mr. Ballinger: I am speaking of the auditor.

Mr. Chairman: Are there any further matters before the committee? You all know where we will be tomorrow morning? We expect everybody bright and early at 10 o'clock tomorrow morning.

The committee adjourned at 3:33 p.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988:
GOVERNMENT ADVERTISING

WEDNESDAY, APRIL 12, 1989



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke--Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Adams, Peter (Peterborough L)

Ballinger, William G. (Durham--York L)

Collins, Shirley (Wentworth East L)

Cousens, W. Donald (Markham PC)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Nicholas, Cindy (Scarborough Centre L)

Nixon, J. Bradford (York Mills L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Charlton, Brian A. (Hamilton Mountain NDP) for Miss Martel

Cureatz, Sam L. (Durham East PC) for Mr. Cousens

LeBourdais, Linda (Etobicoke West L) for Miss Nicholas

Pelissero, Harry E. (Lincoln L) for Mr. Ballinger

Polsinelli, Claudio (Yorkview L) for Ms. Collins

Clerk: Arnott, Douglas

Clerk pro tem: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Energy:

Gagnier, Daniel J., Deputy Minister

Bailey, Victor, Director, Finance and Administration Branch

From the Ministry of Tourism and Recreation:

Tully, D. Blair, Deputy Minister

Jackman, Peter, Assistant Deputy Minister, Tourism

McCall, Anne, Director, Tourism Marketing Branch

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

Mishchenko, Nick J., Director, Special Assignments Branch

Bordne, Walter, Audit Manager, Special Assignments Branch

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, April 12, 1989

The committee met at 10:14 a.m. in committee room 1.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988
GOVERNMENT ADVERTISING
(continued)

Mr. Chairman: I will call our committee to order. We have before us an inquiry into the 1988 annual report of the Provincial Auditor, section 2.4, the Ministry of Energy.

Our guests this morning are Daniel Gagnier, who is on my left—he is the deputy minister—and Victor Bailey, the executive co-ordinator of the finance and administration branch. For the sake of our guests, Ray McLellan, sitting one over from me, is our researcher, and he has briefed the committee members in some detail on the concerns of the Provincial Auditor.

I am sure you are aware of our auditor and his staff. Next to Mr. Archer is Nick Mishchenko, and next, on the corner here, is Walter Bordne, who is the audit manager, the auditor in charge of this particular audit. I understand that Mr. Gagnier has some opening comment. Is that correct?

Mr. Gagnier: That is right.

Mr. Chairman: We will hear you, and I would like Mr. Archer to summarize some of his concerns. Then we will open up for questioning.

Mr. Gagnier: I only wanted to open by saying that my successor in the Ministry of Energy, Tom Sosa, regrets that he could not attend, although I understand you had requested his presence. Unfortunately, he has not taken up his office yet and is taking a two-week holiday out of the country before he steps into the Ministry of Energy.

My general comments would just be to give you some background on my own experience with communications. I was secretary to the federal cabinet for communications for a number of years, so I would be more than pleased to answer your questions not only about this particular audit but about any other aspect of communications from the Ministry of Energy that you would care to ask. With that, I think we can get on with it.

Mr. Chairman: I think members will probably want to confine themselves, considering the time restraints, to the Ministry of Energy.

Mr. Gagnier: That is fine.

Mr. Chairman: We appreciate the offer, Mr. Archer.

Mr. Archer: Thank you. I think, in the light of the extensive briefing yesterday, all that is required now is really just a quick summary of the situation. We examined last year, and reported in our 1988 report, advertising in six ministries across government. One of the six ministries was the Ministry of Energy.

Overall, we found that the purchase of advertising goods and services was, in most cases, not done on an economical basis. We also found that the benefits derived from various advertising projects were generally not evaluated in any meaningful way.

In illustrating the economy issue as far as the Ministry of Energy was concerned, we chose the film version of The Conserving Kingdom play, a play which had been developed as an educational tool to promote energy awareness and conservation among elementary school children. We dealt with various aspects of the film, including its production, its distribution and its promotion. A number of issues were raised pertaining to each of these areas, and they are described on pages 14 to 16 of our annual report.

In the matter of program evaluation, we looked at the R-2000 home program in the ministry, which was designed to promote the construction of energy-efficient housing units. We focused on an agreement entered into by the ministry with a national magazine, which called for the production and distribution of plan books of R-2000 home illustrations. Again, we raised a number of questions with regard to the terms of that agreement, and they are outlined on page 23 of our report.

I think that is a quick summary of the nature of our comments relative to the Ministry of Energy.

Mr. Chairman: Thank you. I am sure there will be a number of questions. I know one of the members was trying to ask questions on this matter to Management Board yesterday, so he will no doubt want to ask them again to the Ministry of Energy.

Mr. Pouliot: Yes.

Mr. Chairman: I will give Mr. Pouliot the first opening.

Mr. Pouliot: Thank you. Welcome. I echo the sentiment of all members of the committee, I am sure, for spending your valuable time with people who are seeking clarification.

On the subject of The Conserving Kingdom and its terms of reference, the package was sent to six film companies. Is that correct?

Mr. Bailey: That is correct.

Mr. Pouliot: I take it those are the people who provide that service for those productions. Five proposals were received and the range was anywhere between \$156,000 and \$220,000. Ironically, the selection committee awarded the contract to the highest bidder. Why was that done?

Mr. Bailey: Actually, what happened was that there was only one tender response for that. Well, that was a distribution contract. The tendering board decided that firm was the one that could provide it with the best service at the price.

Mr. Pouliot: The best service at that price. Then, with respect, it begins to deteriorate. At first, five proposals were received. You sent out six, five came back, and you took the highest.

Mr. Bailey: That is right.

Mr. Pouliot: Okay, on account of they best filled the criteria. I can relate to that. Then you get into some accounting procedures which, to say the least, are questionable. For instance, in the first year \$25,400 of the total of \$245,000—and I am talking here not production but promotion—was promotion.

Promotion was not included in year one of the proposal, and yet you received an invoice for \$245,000 and were told that that invoice was sort of solicited. It was paid in the first year of the contract, when there was nothing calling for any promotional fees to be paid in the first year of the contract.

Mr. Bailey: That is right.

Mr. Pouliot: Why did you do it? Why was it done?

Mr. Gagnier: I would like to put it in the context of the investigation internally that we ran when I first arrived in Energy, to try to determine the answer to that question. My sense of it is that the Provincial Auditor was quite right in bringing forward the discrepancies, because there were discrepancies.

One of the problems, when you start looking into the management of that tender, is that it is difficult to distinguish between the intent of the people who were managing that particular film or program and the firm's inability to provide accurate bookkeeping or justification for a lot of the items that were there.

1020

I had two objectives in looking at that internal investigation. One was to determine that there was no malfeasance, that if there was incompetence or there was bad recordkeeping or if things were done on an understanding that a service had been delivered and that there was confirmation that that service had been delivered, that that, in effect, was the case. It became very difficult, I will admit to the committee, to determine categorically just why a decision was taken, given the lack of proper recordkeeping.

I understood as a deputy, looking back, that the decision to tender the contract had been made for very specific, probably more qualitative than quantitative criteria, that the people on the tendering committee felt that this particular firm would produce the best film. Subsequently, in light of the quality of the product, I think they were probably right. The film won awards and was generally well received by the public, but that is not the issue.

The second issue, which I think you are asking about, is how the decisions were taken, and on what basis, to pay for a promotional item which was not included in the first year's contract. To the best of my knowledge, it was a judgement call by the people who were administering that contract and who felt that those services had been provided. That is what it boils down to.

Mr. Pouliot: This promotional fee included travel to Europe, to London and also to the United States. As a result of that the firm reported that its promotion was somewhat successful. It resulted in \$1,600 of sales to two other jurisdictions. In fact, the television airings had been agreed to prior to the agreement, so there was really nothing justified, but you always wish those people well. Promotion includes a wide range of activities. One of

them is to try to sell your products to other jurisdictions; I can understand this. What I fail to agree with is that due process was adhered to in terms of the provisions.

Mr. Gagnier: I could say again, fairly categorically, that I agree with you. The provisions were not adhered to. There was, I think, goodwill and good intent in trying to recover, through international sales, some of the costs for what they saw as a quality product. But in terms of how they went about it, I agree.

I think I made it clear to the Provincial Auditor and the auditors present that I categorically agree that they should not have gone that route without clarifying the record or without setting proper objectives for the promotion of that film and ensuring that if there was an intent there, that it was met properly.

Mr. Pouliot: There were some discrepancies. The ministry conducted an audit of the producer, then you consulted with your legal staff, which is normal practice, and said: "Look, there is a discrepancy. The taxpayers are not getting value for money." Then an agreement of sorts was reached. They agreed to invoice the ministry for \$5,000 less. Accounting is a precise and meticulous endeavour. It has to be. The very title will attest to that. Five thousand dollars seems like a ladies' and gentlemen's agreement.

Mr. Gagnier: What we were faced with initially in dealing with Breakthrough Films were claims and counterclaims. The legal advice that we had was that it would be much more expensive for us to get involved in a court case with Breakthrough; that they were, in effect, certifying that they had incurred these expenses and that if we were going to—pardon me—clean this up, we would have to settle out of court, pay our bills and get on with it.

We did other things, to be honest with you. We did more than other things. We effectively terminated the use of the film, we terminated The Conserving Kingdom. We signed another agreement with TVOntario where we handed over to them the rights to promote Dudley in The Conserving Kingdom as an educational tool on energy, primarily for youngsters, for children.

We did this mainly because of the experience in this particular case with Breakthrough Films, but more fundamentally because this kind of project, which is what I call soft communication, promotion on an educational scale, is something which is probably, in my estimation, best handled by professional organizations and not by government ministries and departments unless they have a whole wing and a depth of capacity to be able to do it. I can tell you, quite frankly, that that wing and depth did not exist in the Ministry of Energy.

Mr. Pouliot: Before you ceased relations or cut your losses, if you wish, there is a kind of philosophy here that you get deeper into it. For instance, the contract calls for the distribution cost per film of \$10. You do not exceed or surpass it with a degree of normalcy, taking the rate of inflation. You go from \$10—and this is in a relatively short period of time—as agreed to by contract, to \$75, which is the reason we are asking: that kind of discrepancy.

Then we get deeper into it. We had \$50,000 for the contract; we went with the highest bidder. Not only did we buy that but we bought a lemon. Then, well, we are in it, and you are to be commended: You did cut your losses at one time, when you said: "Enough is enough. We're not going anyplace with this firm." But, with respect, it could have been done sooner.

Mr. Gagnier: Yes, I fully agree that it could have been done sooner. I would say it should have been done sooner. When I arrived, there was the lemon, as you say. What do you do with a lemon? You have two choices: you try to drive it or you get rid of it.

Mr. Pouliot: One last question: From what we see here, it is somewhat obvious that expertise while we are going to tender is not what it should be. You have people in their specific fields who know what they are doing to stay in business, but then with the people they deal with, I am under the impression as I read the scenario here that either they lack expertise, time, commitment—what is it? How can we make the system better?

Mr. Gagnier: I have some views on that and I think they are reflected in what we did on the broader scale in the Ministry of Energy. The problem with what happened is that you had one individual who was, for all intents and purposes, an educational expert. She was the project manager and her field of specialty was how to get this particular item before children and to use it effectively with children; a very good individual, a very strong field of specialization. Then you had a lot of program people who were responsible for delivering what they call energy efficiency—they were engineers, program managers—and you had a communications division. Those were the three major components.

The individual who led on the educational front probably knew less about program administration than anybody I have met. The individuals on the program section considered this to be a communications responsibility, but they controlled the dollars. The communications people, who saw people in programs and policy and other parts of the ministry doing communications, figured: "Look, I'm not going to take the blame or the responsibility for any of this. I'm just a vehicle allowing this to happen." So what you had was fragmented accountability on communications in the ministry. Everybody was doing it but nobody was doing it.

When you get those kinds of situations, what happens is that you get lemons. You may get a good product and some outside body says: "Boy, that's a wonderful film. We'll give it the Golden Globe award," or whatever, but in terms of looking at how you use public dollars for communications, you normally run into problems.

What we did in Energy was to take all the communications responsibility away from everybody else, including the dollars attached to it. We put it back in the corporate relations branch and hired a professional communications manager to basically accept the responsibility and accountability for how public money is used in the communications area. Unless you do that, in public life anyway, I think you court this kind of problem.

1030

Mr. Pouliot: I see, by way of thanking our guest, that we are certainly more than halfway into correcting this situation. Your comments are most welcome.

Mr. Chairman: I would prefer if members of the committee would deal with this one topic first and then perhaps move on to the R-2000 area so that we do not get fragmented questions. Mr. Adams and Mrs. LeBourdais, and I have Mr. Cureatz down as the first person when we start the R-2000 area.

Mr. Adams: The lemon, in fact, is the project and the way the ministry handled it. It is not the film.

Mr. Gagnier: That is right.

Mr. Adams: As you say, the ministry did not have the capacity to do this sort of soft thing and yet it seems to me that at this stage, with energy conservation being such an important source of power, the ministry should have such a capacity. For example, the impact of this film, outside of the cost and so on, was very considerable. Another example at the moment is TVOntario's film *The Greenhouse Effect*. It has had an extraordinary effect, which you could argue is as great as what some line ministries are doing in reducing carbon dioxide emissions.

As a ministry, are you backing off that stuff? Are you going to unload all the soft stuff?

Mr. Gagnier: No, we are not backing off it. We are in the process now, having fixed the situation inside, of looking at how we can get the energy efficiency message to the general public, particularly to young people. The question is, do we do it ourselves or do we do it by working in partnership with credible third agencies like TVOntario? I have no doubt in my mind that TVOntario could have produced this film; none whatsoever. I have no doubt in my mind that TVOntario can promote it, probably much better than any government department can. That is their business.

There are others. Victor Bailey can help me out, but there is a council of teachers that is involved in looking at putting energy on the school curriculum. These are all credible third parties we can work with in looking at the educational component related, in this case, to energy efficiency.

Mr. Adams: But you have to have people with the nerve and the imagination to think out what is needed and have some sense of what is needed. You would still have people doing that and an interest in doing that. You would farm out this sort of thing.

Mr. Gagnier: We would do it. What we have done basically is establish a two-key principle. The creative people and the innovative people on communications are in the corporate relations division. The program people, the ones who worry about the substance of the message, are in the policy and program areas. You cannot have funds flow in the Ministry of Energy on this kind of project without both keys turning. It is a two-key system that ensures the accountability for the expenditure of the funds is in corporate relations, and they do not move until they have the sign-off by the policy and program people saying: "Yes, that's the right message. That's the message we want to give as a ministry," or, "That's the message the government has agreed to give."

Mr. Adams: Then how, in the way you see the ministry operating in the future, is the distribution and promotion side handled? There was some concern about that too. Let's say you have a film that is not a lemon, a film that is worth while. It is no use at all unless it actually gets out there. How do you see that being handled in future?

Mr. Gagnier: That would be handled by communications under a distribution strategy. Since they do not have the capacity to distribute film, they would probably, again, have to tender. The question is that the producers are not always distributors. That is one thing. Second, when I looked at the

contracts and how they awarded the contracts, there was what I call piggybacking going on. In other words, it is a lot easier to roll everything into one, come in under your limit and then later on make the adjustments and claim that the second contract is a continuation of the first, when in effect what you are looking at are two different activities calling for two different types of strengths. With people in communications who have the experience and the expertise in contract management for the communications area, you avoid this kind of problem, or you should, theoretically.

Mr. Adams: In the material we received, I was surprised at the emphasis on film. Is that normal? A fairly large cost was involved in producing copies of the film. It is not that film is completely old-fashioned, and I understand it is necessary, but that was a lot of money in comparison to what could have been done through TV, and I suspect most schools now use video in place of film.

Mr. Gagnier: When they say "film," they talk about video. In effect, they filmed it and then transferred it to a video and made copies.

Mr. Adams: It says here the contract was for 225 copies of the film at a cost of \$171.55 each. Video reproductions cost \$50 each, for a total of such and such.

Mr. Gagnier: Yes. They made a lot of master copies.

Mr. Adams: Did it not surprise someone that they were doing that? It is a great big pile of celluloid.

Mr. Gagnier: The only excuse I can make for people is that somebody obviously convinced them they needed that many copies. They were too close to the forest and they could only hug the trees and not see the total forest, so they said: "That's reasonable. You guys are the experts. Make the copies you need." Again, I go back to the fact that this would not have happened if a communications manager had been there and said: "This is ridiculous. What the heck do we need 225 master copies for? There are more master copies than there are countries in the world."

Mr. Adams: I see your suggestions about the supervisor and somebody in communications being a very big part of your mandate. When you have to---

Mr. Gagnier: Oh, yes. Absolutely. I agree with you totally, but again there are other areas that were related to this. When you take your communications function and fragment it, nobody is in charge any more. I submit to you that a deputy, no matter how well he understands communications or how well-intentioned he is, probably does not have that much time in a day to worry about the details of communications. If you do not have somebody down there managing that function, you run into problems. We had something like over 600 publications in the ministry. We are now down to less than 60. What had happened was that everybody just kept doing publications. Program people kept doing publications and policy people wanted publications. Where did they go?

Mr. Adams: For two years, they went to a store I ran on a volunteer basis; it was full of them.

Mrs. LeBourdais: Bonjour, Mr. Gagnier. It is nice to you wearing your old hat, I guess, for a brief time.

I just have one quick question, and I beg the committee's indulgence, because it is not so much facts and figures but more a little bit of philosophy. You say the ministry informed the auditor that energy conservation is no longer a top priority. Certainly, back in the late 1970s and early 1980s it was. I guess I am asking, why was it? Was the future now? The need to conserve is always there and waste is not to be condoned, yet it is not in your financial interest to promote too much conservation, actually. Is the crunch over and did it exist in the first place?

Mr. Gagnier: It did exist. After the Arab oil embargo, conservation became an alternative energy means, became a very real priority not just for governments but for everybody, as people in the public agenda feared there would not be enough energy. As we moved into the 1980s and the price of oil dropped and energy became relatively plentiful, there was a bubble of natural gas supply—

Interjection.

1040

Mr. Gagnier: I am talking about the public's perception. Energy in the public agenda sort of dropped markedly. What is a priority for government is energy efficiency. Energy efficiency means using what we have more efficiently and more effectively. That is a priority, because you can relate that to the number of dollars you can save on your use of energy.

For the ministry, that has become in the last few years a very key component of how it could meet the supply-demand situation, for the future primarily. We are still lucky in Ontario. We have a large enough reserve and we do not have a problem in acquiring natural gas supplies or oil for the moment, but our forecasts indicate that is not going to last. Therefore, that is why the thrust on energy efficiency continues to be important.

In the communications area, we have not yet found a way of bringing that message to the public in such a way that most people will say, "Yes, we want to participate in energy efficiency." Most people are now saying: "There's no problem. Turn the light switch on and, the lights go on."

Mrs. LeBourdais: But realistically, was there ever really a depletion? There were symbolic things done. The Christmas lights went off; they are back on. The trend towards decorating the exterior of homes via Christmas lights is back in force at Ontario Hydro, at Queen's Park and in residences, not to the same degree that it was, for instance, when I was a child and there were tours of houses, etc., but it is back there. So where was the depletion?

Mr. Gagnier: That relates to a question that if you got everybody involved in energy efficiency and you managed to save 3,000 megawatts of electricity by any number of means, people would probably say, "We don't have to worry about an increased supply of electricity because we have saved 3,000 megawatts."

The problem for a province like Ontario is that only a very small percentage of the electricity consumption is used by the residential consumers. The majority of it is used by industry and commercial enterprises, and their appetite is growing phenomenally, not just here but in the United States, in Quebec, across—this is a general problem. We are increasing roughly at two or threetimes the rate we projected a few years ago. If that

lasts, then there will be a serious problem because our reserves will fall and even if we save 3,000 or 5,000 megawatts, all that will do is meet a couple of years of growth.

The depletion is very difficult to measure in terms of the increased demand for electricity. It is a very difficult case to make to people: "You've done a great job. You've saved 5,000 megawatts but we're still going to have to produce another 5,000." "Why did we save it? Didn't it help?" I hope that answers you.

Mr. Chairman: I am sure that has opened up a whole series of questions to Mr. Charlton, who may be worried about Darlington 3, 4, 5 or 6 and whatever.

Mr. Charlton: Not particularly about Darlington at this point, but more about the whole system.

I guess, first of all, that I will pick up on where Mrs. LeBourdais left off. Ontario Hydro says and Bob Wong says that demand management, energy efficiency, is the top priority. We know, just from the brief discussion we have just had, that for Hydro to go out and build a new plant, complete it, test it, throw on the switch, put the energy on the system and deliver the energy is one thing; to implement demand management, energy efficiency, we have a huge communications problem on our hands.

My view is that for all intents and purposes there will be a lot of minor roles for the Ministry of Energy, but the major, primary role for the ministry for probably the next 40 years is going to be a communications role. It will be the entity that ensures communication happens and happens effectively.

What we have before us here today is, I grant you, one example, but one example of a rather significant communications screwup, even though the film ended up being a great film. If we did all of the communications for the next 40 years in this fashion, we would be in real trouble.

You have talked to us about having put in place a communications officer who is in charge of and responsible for, in the accountability sense, this kind of project for the future. But if the primary thrust of the ministry is going to be communications, how do you market to the average consumer, whether a residential consumer, a commercial consumer or an industrial consumer, the energy efficiency programs that are there and the technological possibilities that exist that may not be part of a funded program, but are none the less important to the whole range of the issue?

You mentioned earlier the whole part about the lack of a section with the depth of expertise to deliver that kind of product. It seems to me you still do not have that, and that is the primary thing the ministry should be looking at to avoid this kind of fiasco in the future, because there is going to be a proliferation of the need for communication on the part of the Ministry of Energy. What are you looking at to put those kinds of things in place?

Mr. Gagnier: We have established a corporate relations branch and we have hired somebody from outside government to come in and set up that particular function. I agree with you: I think the communications component is probably going to be the most important one in the next 10, 15 or 20 years. The decision that has to be made is how you are going to approach that

communications challenge. We think there are mechanisms in place, at least I do, public consultation mechanisms including the select committee and the energy choices conference that we recently co-hosted with the Canadian Energy Research Institute in Toronto.

We think you have to bring the choices on energy as directly as you can to the decision-makers and to the people in the province. Until you get them to understand what those choices are, the time frame in which they have to make a choice and the consequences of the choices they make, no amount of promotion, of public relations is going to succeed. It may be glitzy, it may look good, but primarily the choice they make and the time frame they have to make it in, because of the long delivery time on those options, tie them in to a particular direction.

Let's say the people of Ontario and the legislators decided they had to make a decision on a new generation facility of some kind by such and such a time and that was coal, just as an example, hypothetically. That carries all kinds of implications in terms of acid rain, in terms of the environmental protection technologies that you put on to existing coal plants, in terms of whether the public believes a clean-coal technology is possible or feasible in terms of the CO₂ debate. Since it takes anywhere from six to eight years, not including the environmental assessment approval process, to build one of these plants and bring it on stream and work out the bugs, that long lead time means you have to get the front end on the choices right.

Mr. Charlton: That is exactly the point I am trying to make, I think, that the public in this province in 1989, and you know how quickly we are approaching the first major decisions of that choice pattern you are talking about, is not in a position, does not have the information it needs to adequately make those choices we are talking about. That is the first communications challenge that is sitting here. If we do not do it right, we may regret that failure in the context of this kind of problem we started out looking at today magnified a thousand times.

Mr. Gagnier: I would submit, sir, that it is not only the Ministry of Energy, but it is probably also Ontario Hydro and quite a few others in the province that will have to communicate.

1050

Mr. Charlton: Oh yes. You are not the only guys in it, for sure.

Mr. Gagnier: But you have to get the leadership and the thrust from somewhere. Personally, I hope that will come increasingly not only from the Ministry of Energy, but from other sources.

Mr. Charlton: I guess what I was getting at is whether you can give us some kind of an idea in terms of the ministry itself. I know you cannot answer directly for Hydro.

You have put a controller in place, somebody who is going to be theoretically accountable in the future. He is the guy who is going to get spanked if this kind of thing happens again. But can you tell us what kind of a time line you have on putting in place the expertise to make sure that this kind of thing is done in a much tighter, professional fashion in the future when the demands are going to be so immense? What kind of time line is there?

Mr. Gagnier: It is being done as we speak. It took about three to

four months to conduct the reorganization, find the person, get him in, clean out the communications branch, get new people in and get different types of expertise. That is going on now, and I hope that is going to be terminated in the next two or three months as they put the last pieces in place. Then it is a question of working with the interest groups out there to make sure that we can maximize on the expertise that we have and get some common understanding about what the communication priorities for the province should be on energy, including Ontario Hydro.

We set up a nonutility generation council, which is chaired by the ministry, which includes Hydro and the private sector, primarily because neither Hydro nor the ministry in and of themselves are credible in these areas. So you have to bring in other people who have the expertise and the ability to say, "Yes, this is a good way to proceed and no, don't go that way." I submit that we will have to do the same thing with demand management.

Mr. Chairman: We are placed in an awkward position in that we have scheduled the Ministry of Tourism and Recreation for eleven o'clock. I have two more people on my list for this topic and we have not yet dealt with R-2000 about which Mr. Cureatz and Mr. Adams want to ask a couple of questions. I do not want to cut off the people who are left on my list for this, but I just want to ask some caution because of our heavy schedule today. Is that okay with you, Mr. Charlton? Are you satisfied?

Mr. Charlton: Yes.

Mr. Chairman: We have Mrs. Fawcett and Mr. Villeneuve on this topic, then we will move to Mr. Cureatz and Mr. Adams on R-2000 and then move on to the Ministry of Tourism and Recreation, I guess, a little bit late.

Mrs. Fawcett: Just very briefly, all of the dollar questions certainly have been asked but, as a former educator, I was just wondering, when you said that this received awards and so on, where did the awards come from? How did the primary children receive the film? I was just really interested. I mean, was there ever any report on whether it really did its job after all of this money?

Mr. Bailey: It was nominated for a film award.

Mrs. Fawcett: By film directors, by other film people?

Mr. Gagnier: Yes, it was a film award rather than an educational one.

Mr. Bailey: From all reports, the children loved the film.

Mrs. Fawcett: So it hopefully did its job. Were there any teachers or educators involved in it?

Mr. Gagnier: Yes, there were educators involved and there are lots of letters from teachers who write in and say this is a wonderful thing. We used to use the film in an exhibit on The Conserving Kingdom, which was used at the home show and other locales.

Mrs. Fawcett: It was available in schools?

Mr. Gagnier: Yes, it was supposed to be available in schools. They were mailed out to schools. There was a formal system set up for handling all of that. I used to run a film distribution program in a Canadian embassy

abroad. It is a very difficult thing to evaluate because if you are offering something and it does not cost anything, everybody wants it.

Mrs. Fawcett: Is there an endeavour right now in communications to get something into courses of study?

Mr. Gagnier: Yes, but we are working this time through the educators, through the Ministry of Education.

Mrs. Fawcett: Okay, good.

Mr. Gagnier: So we are doing it slightly differently.

Mr. Villeneuve: We are members, I gather, of the North American power grid here in Ontario, are we not, or belong to it?

Mr. Gagnier: I think so. I remember Bob Franklin talking to me about that, but it is not something that comes up every day.

Mr. Villeneuve: Could you tell me what our generating capacity is in relation to our requirements at peak periods?

Mr. Gagnier: I can tell you that at present we generate a capacity of up to almost 28,000 megawatts a day. That depends on whether all of your plants are working at peak. Our capacity is being stretched. There was one cold day in January, I think it was, where we came within 40 megawatts of shortage.

The problem was that for the first time, as people scrambled on this North American power grid arrangement, which is a pooling arrangement, as I understand it, to buy power from somebody else, nobody else had it.

Mr. Villeneuve: Including Quebec?

Mr. Gagnier: Including Quebec. The situation in Quebec is that they not only misforecasted on the demand-supply but reserves have gone from 15 per cent to eight per cent. Their reliability factor is down to nine and a half hours per blackout per person in the province. They cut on their maintenance care, so the sort of thing is rolling in a way that they cannot tell where the next shortage is going to come from or why.

Mr. Villeneuve: How important are the private generating facilities here in Ontario? I gather we now have a number of privately owned generating stations. How important are they in the overall picture?

Mr. Gagnier: Before the government and others put an emphasis on small hydro and parallel generation, we probably had something like 20-odd projects. We now have close to 100 on the table, of which over 60 have been approved. There is a leap in terms of the numbers, but when you look at the total generating capacity of the private system, it is very small. Small hydro accounts for 400 or 500 megawatts.

Mr. Villeneuve: Has the auditor or his staff looked into the economics of Hydro buying privately generated power?

Mr. Archer: No, we did not as part of this review at all.

Mr. Villeneuve: So that is not part of the review.

Mr. Archer: No.

Mr. Pouliot: That is not the answer.

Mr. Adams: If I might, that is roughly two per cent or whatever it is, but the significance surely has to do with developing parallel expertise in the province, as well as developing parallel power. I mean, it is important that we have other experts in the province than Ontario Hydro.

Mr. Gagnier: What you have is basically not a conflict, but a debate between two interests. One is the principle of public power at cost and the other one is a group of private sector individuals who are saying to Hydro and everybody else, "We can do it better and we can do it cheaper." This is part of the choice that people have to make. They may be able to do it. The question is, will they be able to do it as reliably? There is a difficult series of questions there.

There are others who are saying, "We're into cogeneration and we can provide base-load demand if you'll let us burn natural gas." The problem is that the space and the pipeline for natural gas are very tight. Unless you lock your contracts in on availability and price for a long period of time, you may generate base-load power, but you may also find your hydro rates doubling and tripling, not now but when the price reopeners come up on those contracts. There are all kinds of factors coming in.

This is an area where the minister is probably better able than I to speak, but you need to diversify your options. There is a role for small hydro, there is a role for cogeneration, there is a role for all kinds of options in the energy portfolio.

Mr. Villeneuve: I realize that in Cornwall at the main generating station some of the turbines are now being replaced after some 30 years, and I understand they may all have to be replaced, which is a fairly major project. Lennox has come on stream, I believe, an oil generating plant. Where does the oil come from?

Mr. Gagnier: The oil mostly comes from out west.

Mr. Villeneuve: Primarily from western Canada?

Mr. Gagnier: Yes.

Mr. Villeneuve: Is it a low-sulphur oil?

Mr. Gagnier: I am not sure. I would have to check with Ontario Hydro. They are under pretty severe constraints in ensuring that both in terms of coal and oil, they use low-sulphur commodities.

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Mr. Villeneuve: One final comment—

Mr. Chairman: I do think that we are dealing with a specific topic and I think we may have strayed from that topic.

Mr. Villeneuve: I had not realized that the auditor did not look into the economics of privately generated power, and that may well be something worth looking into in the future. Energy efficiency, energy conservation and the ecology are very important. I know that you are not stressing conservation any more, apparently, but I think you need to look at that again.

Mr. Chairman: I think members are going to have to stress some conservation in the next 15 minutes; otherwise, we are not going to get to our next guest. To refresh the members' minds, we are going to be dealing now with the R-2000 question. Your research notes are found on page 17 and also on page 24 for quick reference. Mr. Cureatz is my only questioner so far.

Mr. Cureatz: I will do my utmost to be brief, and try to remain on topic. Mr. Gagnier, you mentioned you were from Ottawa. What position did you have in Ottawa?

Mr. Gagnier: I was assistant secretary to the cabinet for economic policy and programs.

Mr. Cureatz: When did you arrive here in Ontario?

Mr. Gagnier: February 17 of last year.

Mr. Cureatz: And you have been serving as deputy minister to the Ministry of Energy, but you are leaving that position?

Mr. Gagnier: I was appointed to the Ministry of Intergovernmental Affairs last week.

Mr. Cureatz: I see, so that you will be deputy minister of Intergovernmental Affairs. Were you appointed by the minister, Mr. Wong, in 1988?

Mr. Gagnier: No. I think that all the appointments are the privilege of the Premier (Mr. Peterson) to make.

Mr. Cureatz: It may be that I am straying a little, but I want to tie this in in terms of advertising to R-2000. I am feeling uncomfortable because you mentioned Ontario Hydro, and my colleague Mr. Charlton and I had the opportunity from time to time of doing some investigations of electricity on the select committee on energy.

From the responses to the previous questions, I do not have a working familiarity with what Energy is doing in terms of leadership in advertising, more particularly conservation. I know you have to work in conjunction with Hydro, but over the past little while, Mr. Charlton has slowly convinced me that Ontario Hydro seems to have blinders on, although you acknowledged the amplification of the parameters of looking at various aspects. It seems to me that Energy should be taking a greater role in leadership, and one of them, as Mr. Charlton pointed out, would be advertising, and in particular, energy conservation.

In that regard, if I can turn to the R-2000, and as critical as I would like to be of Energy, I want to be actually critical of the auditor. Although I know it is difficult to say how you felt the interpretation of the R-2000 program went in four or five words in a synopsis, for instance, you indicated on page 17 that, "The program 'influenced' 150 units built in Ontario through

the ministry's policies (17 per cent of the 883 built)." Do you realize how strict the standards were in terms of building an R-2000, and that they were the severest of standards, even beyond those expected in the Scandinavian countries, which have a similar experience of climate to ours?

In your evaluation, I think that you are putting in a colour of interpretation so that the Ministry of Energy would be hesitant in the future in trying to get into these areas of fostering conservation. The first thing it will do is hold up a piece of paper and say: "Oh, no, the auditor does not like us running around trying to get people to conserve, because on the R-2000 he said that the program was very inefficient monetarily. There were only 150 units influenced of the 883."

But of the 883 built, I am sure those were built to R-2000 standards, although they did not pass the test. So I am critical of your evaluation, because what happens is that it taints the position of the Ministry of Energy, when we have not quite resolved who should be taking the leadership role in conservation, whether it is Energy—I think it should be but I do not think it has been—or Ontario Hydro.

Have you any thoughts about how that kind of statement reflects in the long term that Energy is in a position of maybe being hesitant to try to encourage R-2000 homes through advertising? It is actually a very good program if we could convince people in some manner, be they developers or individuals.

Mr. Archer: Maybe Mr. Mishchenko will want to add a bit more, but I think you are accusing us wrongly. We are not criticizing the ministry for the fact that only 17 per cent were as a result of the ministry's policies. That was just a matter of background information provided for that purpose: information only. Our sole criticism of this program was with regard to the production and distribution agreement they entered into with a national magazine. We are not criticizing the results of the overall program.

Mr. Cureatz: It says here under Production and Distribution Agreement, at your third bullet—I guess it is your bullet. Is it?—"The R-2000 plans were not popular." Is that your statement on page 17?

Mr. Archer: That is the researcher's statement.

Mr. Cureatz: If that is the researcher's, then I will complain to the researcher. If it is not your statement, I will forgive you.

Mr. Chairman: I think the researcher also suggested a number of other issues which you might like to address yourself to.

Mr. Cureatz: Well, we are working with time restraints.

Mr. Chairman: That is why I am suggesting that you may want to ask some questions along those lines.

Mr. Archer: In fairness to the researcher, I think that is a fair statement, but you have to take it in the context of going on with a second stage of the plan, talking about this production and distribution agreement. They went on with an elaborate second stage when, in our view, the results of the first stage were so poor that we questioned going beyond where they were.

Mr. Cureatz: Since you brought up the research information, that is a question I did want to ask, but not in a negative way: Why did you bother

with the second program when maybe the first was not successful? I would like to ask in a positive way: With your experiences learned from the first program, did you do a study or are you familiar with any that was done, so that a further attempt could be made to try to foster the program? And has the program now been terminated?

Further, I am concerned about what I guess is the researcher's statement: "The ministry informed the auditor that energy conservation is no longer a top priority...." I would like you to run the program again and if you do not do it right the second time, try it a third or fourth time, because if my colleague the New Democratic Party Energy critic has convinced me that part of the problem is conservation, then we should be pushing it and we should not be embarrassed about these kinds of programs.

You can hire all kinds of people, as they say, on Fifth Avenue to try to push this stuff, to try to convince people that these are some of the things that have to be done. Maybe there is some encouragement through the builders' association: drop the land transfer tax if the builders can meet some kinds of quotas for R-2000s to save electricity. At the moment actually there is no incentive in the program. I have had some dealings with constituents over it; it was very frustrating.

Mr. Chairman: Do you have a question?

Mr. Cureatz: The question is a follow-up: What kind of in-depth investigation did you do in promoting the second program, and is there going to be a third program? Or is it true that energy conservation is no longer a top priority?

Mr. Gagnier: I wanted to dispel the conception that energy conservation is not important. It is. It is a priority of the ministry. We happen to push it more in terms of energy efficiency because conservation tends to have a different connotation for people. They think that we are going to ask them to sit in their living rooms with sweaters in the middle of winter and turn the heat down.

Mr. Pouliot: That was said before.

Mr. Gagnier: On the R-2000, not only have we evaluated that program internally but we have done two or three others, the city's energy forum, for example, that are directly related to energy efficiency, low-energy conservation, if you will, not for the purpose of ending them but for the purpose of making them more effective. We have done with that the R-2000, and no, we have not scrapped it. It continues this year and hopefully there will be an R-2000 program next year.

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What we are trying to do in a systematic way is adjust every program in the ministry aimed especially at energy efficiency, so that if it is not delivering on the objectives for which it was set up then there is an adjustment made, or if it is incapable of being adjusted to deliver that we come up with different programs to reach those populations.

Mr. Chairman: Thank you, Mr. Cureatz. Mr. Gagnier, assuming that the R-2000 program is—

Mr. Cureatz: I am finished, I believe.

Mr. Chairman: I had assumed you were, and I planned on using my position as chairman to ask a question and perhaps try to focus some of our concerns arising out of the auditor's report. Assuming that the R-2000 program is worth while and that energy conservation is worth while and you plan on continuing it, the auditor was somewhat critical of the fact that you chose a national magazine that had only 40 per cent circulation in Ontario to promote this program. Assuming the program continues, what assurances do we have that you will use a more efficient method of advertising such a program?

Mr. Gagnier: I can only give you the assurance that, hopefully, the management people who are there now will be much more focused in looking at some of the vehicles they use for promotion.

I think there is a problem with the R-2000. There are not that many vehicles, and second, it is not a program we run by ourselves. We are tied in with other R-2000 advocates, proponents, building companies involved. We bring only one part; if you like, we are partners in this. Hopefully, we are aiming the majority of the program to Ontario architectural students and to Ontario designers so that even though they go off to Vancouver—as one of the prizes, for example, they go off and work with the leading R-2000 firm in Vancouver—they come back to Ontario and bring that expertise back with them.

It is the same with the R-2000 magazine. Maybe we will find a better one. I hope we do. I hope we find one that is 90 percent focused on Ontario. What my people tell me is, "We haven't found one yet," but that does not mean they will not keep trying or that they will not find some other method of promoting the program.

Mr. Cureatz: I have a very brief supplementary.

Mr. Chairman: Further questions and then I will move on.

Mr. Cureatz: At first blush, it does look annoying that that is where you have spent a good amount in terms of the program, in the magazine, but in my experience with the various investigations of Hydro, Ontario takes a leadership role across the country: all the provinces, unfortunately, look to Ontario Hydro. This is where I am questioning the leadership role of the Ministry of Energy with the various programs and abilities of producing electricity. If we in Ontario are the leaders in the field and if we are helping the rest of Canada in terms of conservation, I begrudgingly acknowledge that if that is the magazine it has to go into, if we are helping somebody else across the country, I do not mind.

Mr. Gagnier: We still build more R-2000 homes than anybody.

Mr. Cureatz: That is right; exactly. So you are adjusting the program, you are saying, in terms of trying to get it out and around. I would like to ask how and all kinds of things, but I do not think I will have the opportunity.

Mr. Chairman: I am sure the follow-up audits will find out exactly how you have adjusted the program; we will be looking forward to that. Thank you, Mr. Gagnier and Mr. Bailey, for appearing before us.

Mr. Cureatz: Joan and I want to see the film.

Mr. Gagnier: Sure. We will send it.

Mr. Cureatz: We can? Can you send it to the committee?

Mr. Gagnier: Sure.

Mr. Chairman: Before we conclude this one item, I would simply point out to Mr. Cureatz that it was not our researcher. Our researcher quoted directly from page 23 of the auditor's report.

Mr. Cureatz: About how bad it was? Is that right? So it was the auditor.

Mr. Mishchenko: No, just the document you were reading. The researcher's document, not our document.

Mr. Chairman: Okay. We will move on to section 2.4 of the Provincial Auditor's report, the Ministry of Tourism and Recreation. While our guests are coming before us, as I am going to have to leave a little early for a meeting with some accountants at 12, I will be turning over the chair soon to Mr. Pouliot.

I would remind members that we are meeting here in camera at 1:30. If members arrive, Mr. Pouliot will be in the chair for your briefing. I will arrive later. I am fully familiar with what is going to be in the briefing. We will then travel to the Hamilton Psychiatric Hospital. We have travel facilities available. How many members are taking the bus and how many are taking their own vehicles because they have to get away?

Mr. Pelissero: Which do you want an indication of first?

Mr. Chairman: I want how many are going to be on the bus.

Mrs. Fawcett: Can I put up half a hand? I would like to come back on the bus, but to go I would like to travel with Linda by car.

Mr. Polsinelli: Maybe we have enough cars that we will not have to take the bus.

Mr. Chairman: Is it possible to cancel the bus at this time?

Mr. Polsinelli: Maybe we should determine how many are coming back.

Mr. Archer: There will be three from our office.

Mr. Chairman: There will be staff from the auditor's office as well, so I think we are going to have to keep the bus.

Mr. Adams: Before you leave, as we will have some substitutes tomorrow, am I correct in assuming that we come to this room at 10 and will leave from here?

Mr. Chairman: Yes.

Mr. Adams: So our substitutes should simply be here at 10 o'clock.

Mr. Chairman: Yes. Your substitutes should be here, and then we will take everybody and show you the front door and get you on the way.

Mrs. Fawcett: So everyone comes here at 10 tomorrow.

Mr. Chairman: We welcome D. Blair Tully, who is the deputy minister, Peter Jackman, who is the assistant deputy minister, tourism division, and Ann McCall, the director of the tourism marketing branch.

As I mentioned earlier, members of the committee have, as usual, met with the researcher for our committee as well as with the auditor and his staff and been briefed on the issues.

Mr. Tully, do you have any comments you wish to address to the committee before we start the auditor's opening remarks and the questioning by the members?

Mr. Tully: No, I did not have any specific remarks to make. I welcome the opportunity to meet with the committee and explore its concerns with respect to the issues raised.

Mr. Chairman: You are the first deputy minister who has ever welcomed an opportunity to meet with this committee, but we welcome you.

Mr. Pelissero: He's new on the job.

Mr. Tully: I am just seven days into the job; I will probably learn.

Mr. Chairman: Mr. Archer, I wonder if you will address some of your concerns, and then we will open for questioning.

Mr. Archer: Very briefly, in the light of your time constraints and the fact that we went over most of this yesterday already, on our advertising audit we concluded that there was an overall lack of concern for economy with regard to the purchase of goods and services. We supported this conclusion with four summary examples of what we found, and these four examples are outlined on page 13 of our report.

Our comments concerning the Ministry of Tourism and Recreation serve to illustrate two of these examples, one being the lack of support for production estimates and invoices submitted by the advertising agency, and the other being that payments were made for services of questionable value or purpose; that latter example also involved the agency of record. Again, you will be familiar with that from yesterday's discussion.

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These comments were outlined on pages 20 to 21 of our report and they also included an illustration of a related problem. That was a wide and seemingly unquestioned variation between estimated costs and invoiced and paid costs for various services billed by the advertising agency. Again, that is by way of general background.

Mr. Chairman: As a way of focusing our inquiry, in light of the time, I wonder if the deputy minister might start off by telling us what action has been taken by his ministry to implement any or all of the auditor's recommendations.

Mr. Tully: I could make a couple of quick points with respect to what I think are the two major issues raised by the report, that of the two specific examples, and then perhaps my colleagues, who are certainly far more expert than I in the technical detail of the purchasing process with respect to advertising, might be able to answer any specific questions the committee might have.

The first specific concern, I think, the auditor referred to was a recommendation regarding the departures from the approved media plan that was set in place with the agency of record, and the process by which departures from that media plan were reviewed and approved by the ministry: I think we would agree, overall, with the recommendation. We have had discussions with the Advertising Review Board which, as you know, is in the process right now of awarding an agency of record contract.

At the time that contract is in place, we have been assured that a process for effective consultation on any departures from the approved media plan would take place, so what we are talking about here is the purchase of advertising space or time in various regions of the province or, as is the case, not involving the agency of record outside of the province in other markets, tourism markets. Where insufficient space or time was available in the kinds of time slots we were looking for and the advertising purchaser had to depart from what was the approved plan, a process of consultation would be gone through to ensure that our objectives were being met in any variations from the media plan.

I think the second specific concern raised in the auditor's report had to do with the process of billing for creative service costs. I think there was some confusion in the minds of the auditor's staff. It was justifiable confusion because of the way detailed production costs were charged in the billing system which our agency had in place at the time of the review. That was a process we were not particularly happy with either, but it is one of the very difficult aspects of the creative service charging system, which did not allow the kind of detail on the specific project and specific type of activity to be allocated in the charges so that we would be in a position to know in a bill exactly which project and what kind of activity a particular charge was related to.

Overall, particularly with respect to the examples that were raised by the auditor's report, there are explanations for the variations that suggest that the difference between estimated costs and actual costs on a project-by-project basis were not significantly different, but I do not think that takes away from the proper concern the auditor raised, that from the billing system one would not easily be able to discern that kind of information.

We have been working with the creative agency over the past year, because we sensed the very same problem. The creative agency has now purchased and installed a computerized system which is a very new system and is exactly appropriate for this kind of activity. It is called the Adtraq software. It is a system which allows us to match more exactly estimates and invoices by category type of activity and project.

I think this will allow us to track actual costs against project estimates and will not generate the kind of divergences which were pointed to in the auditor's report. This process is in place now and is one which is generating the kind of results we would like to see.

Mr. Chairman: Your answer is so general as to make me feel uneasy. I am hoping that maybe Mr. Pouliot will ask some questions either of you—I recognize that you are just new in the position—or perhaps our other guests and see if we can get a more detailed answer.

Mr. Pouliot: Given the higher degree of violence, penalty killing is certainly a forte. Mr. Tully, the report of the Provincial Auditor was—

Interjections.

Mr. Pelissero: Could we have some explanation from Mr. Pouliot of that?

Mr. Pouliot: I have a very simple question and the answer may not be generic in nature. Of the production cost, how much of it was overtime costs?

Mr. Tully: I will ask Ms. McCall to speak to the specific contracts.

Ms. McCall: There are no overtime costs associated with the specific example outlined here, on the invoices here. The difference between the estimated cost in here and the invoice cost in here, the confusion in this particular one, was that the estimated costs on the left-hand side are for one each of four ads, and the invoice cost is for four ads. They were called Legends of the North ads. It was a series of four that we did on northern Ontario. On that specific one, that is the difficulty: the charges are for four ads, and there is confusion here. I cannot tell you on that specific one what the overtime charges are, but I could find out if there were any and report back.

Mr. Pouliot: A supplementary, if I may. Mr. Archer, when was your report tabled?

Mr. Archer: The annual report? November of last year.

Mr. Pouliot: That gives us—what?—four full months. It says, "Overtime charges: these costs were frequent..." The focus is on overtime. Of what is being questioned here, what percentage of it was overtime, supplementary to normal working hours at the "designated workplace"?

Ms. McCall: On this particular one, to my knowledge, there were no overtime charges. The question in terms of total amount of overtime versus our advertising total I have not added up. I can give you that information, if you would like it. There is no problem with our giving you that number.

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The issue around overtime charges was that there was overtime being charged to us without written-down prior approval. That has been changed. There was a letter sent to the agency a number of months ago, and now it has to have written prior approval to enter into an overtime situation. It goes on the estimate, and that has been the case.

We have not added up the total amount of overtime charged previously. What we did do was put this in place, so that now we can look at an estimate and make a decision on whether we want to actually undertake overtime to get something to meet a deadline. Often opportunities will come up at the last minute, very good opportunities that we do not want to miss, and the efficiency or effectiveness makes sense. In some cases it does not, but it allows us to make that decision on whether overtime should be incurred.

Mr. Pouliot: As a matter of practice, are those good deals that will surface at the last minute, where you almost reach Mecca, not usually built in under a contingency provision?

Ms. McCall: No. First of all, those situations are rare where we would have a last-minute case, but even if we entered into any specific

activity, another estimate would be a separate project. There would be no contingency allowed under a specific estimate. Within 10 per cent of the estimate is what is allowed under the contract. Anything more than that or even any overtime must now be approved ahead of time.

Mr. Pouliot: That is a welcome departure or recognition that the cost of overtime these days, as we know, is at least one and a half times. The statute says you cannot get it for any less. In terms of value for money, it has to be that on rare occasions, where again a deadline in specific cases has to be met, you do what you have to do.

It is a normal reaction, not totally unwelcome, but as a policy, if we see that frequently there was overtime, it brings one to believe that it is almost built in to the system. This is the kind of approach we wish to deter, because you are paying 50 per cent more in some cases, in fact for every hour of overtime, than you should and therefore not getting value for money.

Mrs. LeBourdais: Perhaps just by way of further follow-through, I am just wondering—either person can answer the question or you might want to defer—when you are negotiating contracts, do you specifically ask for the agencies to quote on a project basis with perhaps a clause, a not-to-exceed figure? Is it strictly done on an hourly fee basis or do you have a combination?

Ms. McCall: The advertising agency is selected through a process with the Advertising Review Board. The advertising agency pitches on the basis of experience, etc. There is a standard contract throughout the government that each of the agencies which works for the government as a government agency signs with the ministry. Under that contract, there are detailed ways that they must bill.

On media purchase it is 15 per cent, on some art work it is 15 per cent, other work time is a straight hourly rate and on other activities, such as expenses, they cannot mark up, it is the straight charges. It is about eight pages long in the contract, the specific things that they are allowed to charge us for and at what rate. It is a three-year rate, so it does not have an inflation clause in it at this time.

Mrs. Fawcett: I was just thinking, though. Obviously some years, perhaps if you were just launching a new campaign where the creative input would be heavier, the workload therefore to a given agency in that particular six-month period or the first year of the three-year period would be more substantial. How is that covered off?

In other words, when you are negotiating the contract, are you able to project sufficiently so that you can sit down and say, "During this three-year period, there are going to be three new campaigns required, on this, this and the other thing"? You have a track record or tradition to look at of things that have been done, but perhaps with changes—the government changes, the ministers, there is a new thrust—how do you therefore get a sense of what the workload will be and how does the agency therefore do a time evaluation or plan?

Ms. McCall: We would develop a plan with staff and the agencies involved annually. There is definitely a cycle that happens every year. There is a busy time and not a busy time. Right now is a very busy time because we will launch a campaign on May 1. The two months ahead of that are a very busy time, whereas July and August may not be busy. Then we would be planning the fall-winter campaign. When it gets closer, it gets much busier.

There are peaks and valleys that we can plan for. In fact, one of the reasons there are overtime charges from time to time is that there are peaks and valleys in our activity. We try to plan ahead enough that it does not happen. The difference between what we buy in media and what we pay creatively is fairly consistent. However, if we are going to change campaigns, there sometimes are more creative costs, and those might be at the expense of media. It is pretty consistent in terms of a ratio of creative costs to media costs.

Mrs. LeBourdais: But there is no way you could build in, in a sense, within that three-year contract, that they could bill on a project basis with a specific fee, with a not-to-exceed figure unless they come back to you, and then to cover the ongoing day to day, month-to-month, have a sort of retainer fee, if you would.

Ms. McCall: We actually already do part of what you said. The 15 per cent that the agency makes on the media is the fee. We do not pay them for planning or strategies or whatever. That amount of money comes out of the 15 per cent. On every other activity creatively, if they are doing a creative ad or designing an ad or producing a television commercial, that fee must be submitted to us in an estimate on a project-by-project basis at the rates that are in their contract. We do not pay an overall operations or planning fee to them. That is part of that 15 per cent.

Mrs. LeBourdais: Okay. Thank you very much.

Mr. Chairman: I think it might be useful for the committee to understand what changes you may have made as a result of the auditor's report. Could you supply our researcher with a copy of any sample of a production cost estimate that you have done more recently, as a follow-up to the auditor's report, and a copy of one that you consider the auditor would have considered inadequate, vague or lacking in detail, so that we might have the two side by side?

Then we will be able to see what changes you have made. I think it might be a little bit more specific and clear for us than talking in the abstract the way we seem to be doing. That would be useful and it might even end up in our report, complimenting you on the changes you have made.

I have Mr. Adams and Mr. Villeneuve on my list, and I am going to ask Mr. Pouliot to take the chair, please.

Mr. Adams: Perhaps I could just summarize some of these comments and then pose my question. On the creative services costs item, it says: "Production cost estimates lacked detail. Actual invoices lacked detail. As for payments, there was no evidence of a reasonableness review and approval process." On the overtime charges matter, it says, "These overtime charges were not identified and so it was not possible to summarize these costs and evaluate their appropriateness."

There are two things about that. The auditor is actually saying that he felt the information was not there in such a way that he could assess it, but also, by implication, it suggests that the system did not allow you to assess such things over time.

If I could go on to the TV media expenditures, it says—and this has to do with your purchase of gross rating points—that these expenditures, as far as the industry is concerned, should be within 10 per cent and that yours were over 25 per cent out, I guess is the expression.

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I think you caught the end of the last presentation from the Ministry of Energy. Their point was that they were in this soft area, a marketing area or whatever it is, promotion area, and that they were a ministry that actually did not have the expertise to do that. They have changed and they are going to go through education, which was mentioned, and so on.

It seems to me this is particularly troubling in your case. I see from the summary of operations of the agency records, not only for this year but for previous years, that you are the premier advertising ministry. You spend very large sums of money and presumably you do have this expertise. Whether you are farming out the actual work or not, you have it. Why is it then that the Provincial Auditor can come in and make these rather damning statements?

Mr. Tully: Let me give you sort of seven days of the sense of why that can appear to be the case, and then I will ask the experts to comment.

There are two sets of points there. Let me treat them separately, because I think they are different, though obviously they relate to the area of total control in an area, in a kind of activity, that is not totally scientific in its approach. If you remember the debate we all had years ago, it is more an art than a science.

Nobody knows exactly what happens to the consumer when he or she is the recipient of advertising of any kind. There are lots of people in this city, in New York and in many other cities who are getting rich trying to tell us that they know how the consumer responds to different kinds of advertising.

Unfortunately, the system is not perfect. We do spend in our ministry and we are becoming far more sophisticated in the front end and the hind end of this process, that process being deciding what parts of that market you want to go after and change the behaviour of, deciding how you are going to do that, and then having a follow-up procedure at the end that allows you to measure, in a very unsophisticated sort of way, whether you had an impact.

We can argue about where that impact is, whether it is on the consumer's behaviour or tourism activity or it is just that the consumer thinks you are nice instead of not having a view of you, whether it prompts him to action and so on. These are all variables in this exercise that no one has got down to a science yet, but they are the kinds of things that one has to make judgements about in this process.

We have developed a fairly sophisticated front end of this process, a market planning process, that allows us to sit down with our creative agency and decide in advance what kinds of behaviour we want to change and to work with it in determining the kind of creative approaches, the sort of advertising programs, television, radio, magazines, word of mouth, billboards, all those kinds of things that potentially can change consumer behaviour, to determine a plan and to take that plan and work it down into an individual project basis.

We have worked at the other end in measuring consumers' behaviour, their response, the level of activity and so on, but these are things which, as I say, are very unscientific. Certainly among ministries in the Ontario government, we are ahead of all the others in that process because we have the most at stake. We have an advertising budget of something in the order of \$12 million and a total marketing budget of \$20 million to \$24 million. So it is far more important for us to be as sophisticated as one can be.

In the middle of this process is the meshing of a government process of accounting and recording with the activities of the creative service agencies out there. They do not operate the same way we do and we have been working with them on developing systems that allow their approach and our approach to mesh.

I think the specific example that was raised by the auditor is a snapshot of one of those areas where a problem exists, because we have to know, on a project-by-project basis, how to measure the specific type of activity that is going on and to be able to make judgements about that activity. They do not work that way since they are trying to have an impact from a different perspective.

We now have in place, as I mentioned, this Adtraq system, which does allow us to make the kind of judgement calls that we are talking about here against what was requested in the first place, so that we can tie activity to this sophisticated process. We are developing and deciding: what you want to do, where you want to put your money, which markets you are going to go after, how much you are prepared to pay to do what, and then to have a process by which you can measure and judge whether that is being done by the agency on your behalf and in a precise sort of way.

It is not a perfect system, but it is the system we have now with Adtraq. We will have, with the agency of record, a process of approval on any change, any adjustment from what we had hoped to achieve, in terms of either costs on a project or purchases of time on radio and television that you can get, and to be able to make those approvals, to take those steps to approve things as they are going along.

Ms. McCall: On those specific examples, the difficulty with the previous system was not that we did not have detailed invoices from the agency. The difficulty was that you had to be an advertising expert to be able to understand how we were being billed and it took—

Mr. Adams: You have been spending all this money all these years.

Ms. McCall: Yes, we have. We were very confident that detailed backup documentation we received from the agency against the estimate was in fact meeting our objectives and approved.

The difficulty was that a word on the estimate did not match the word on the bill, because the computers did not talk to each other. When they were calling something "typesetting" on their computer program, they did not have the word "typesetting." They were not able to choose a government label under that old program. It was a set advertising program that was for every client they had and they were not able to adjust to make it easier for us or for anybody else to look at those details.

So the new system has not only helped us, in government; it has helped us from a staff-time point of view in being able to review those estimates.

In terms of the gross rating points that were questioned in terms of the difference between our ministry, the agency of record and our planning agency, when you hand the agency of record something that you want to achieve, say 150 gross rating points, they go out and buy it on our planning agency's behalf.

Sometimes they would be able to buy 160, which means that more audience saw it more times than 150, because they were able to get that for the total

budget we had set. So if we gave them, say, \$4 million to buy 150 gross rating points in Ontario, or whatever the amount, they may have been able to buy 160 or more than 160. What they were not doing was coming back to us and saying, "Do you want us to buy 160 or 180?" They were overachieving.

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When the Advertising Review Board sets up the new system with whoever the agency of record will be, when they achieve 150 and it comes in at less money than what our budget is, they will come back to us and say, "Would you like us to buy 160 gross rating points or would you like to use that money for something else that would be more effective?" The difficulty in it was that they were making an assumption that we would always want to buy more GRPs rather than have the choice of not.

Mr. Adams: I am pleased to hear that you are putting in place a system that allows monitoring. I realize these difficulties, how intangible it is to measure some of these things, but you also have a measurement process at the end. It seems to me that in some ways that is more important in the soft areas than it is in whatever the hard areas are, because it is sort of clearer in the hard areas.

The other aspect of this is interaction with the auditor. I am not saying, goodness knows, that you should design your operations entirely to deal with the auditor, but I do think it is important that he felt he could not assess properly. From the point of view of this committee, that is a very important point.

It seems to me that in government we are trying to develop an instrument that allows us to sort of sample the system, which we hope is running very well, in such a way that without a great expenditure of time and money, we can very quickly get some sense of how healthy it is. Therefore, I would say the one thing I said at the end there, that not only can this be monitored by you and these assessments be acceptable to you, which is your job, but also that they should be intelligible to someone else who may not in fact be as well informed as you are.

Mr. Tully: No, and as I said in my introductory remarks, I think, in the context of the specific concerns raised by the auditor, we have satisfied ourselves, in going back and doing the kind of investigation you are talking about, that there was not a problem. Had we had more time with the Provincial Auditor's report comments on this—we saw it very late in the game before the audit report was produced—I think we would have had the opportunity to deal with the specifics, but I do not think that takes away from the general concern.

The general concern is one that we share and that we were working on with the agency. We now have in place a system that I think would satisfy the auditor and satisfies us because it provides us with that kind of information. I do not have any concern with respect to the general concern, but I am saying with respect to the specific examples that we have been able to look at them and figure out how the invoice cost appears to look significantly different from the estimated cost. It really is the way costs have been allocated, not a problem of invoices being substantially above the original estimate.

Mr. Villeneuve: I come from eastern Ontario, as you well know, and there is a certain commission there called the St. Lawrence Parks Commission that is having some problems. I have suggested on a number of occasions that

the attractions at the St. Lawrence Parks Commission—you do have some very nice brochures and what have you. The problem is that 98 per cent of the cars travelling on Highway 401 do not have those brochures in the car with them.

We have a measurable situation where in 1984, because it was the 25th anniversary of the St. Lawrence Seaway, a sign went up at Iroquois saying they had the Iroquois lookout point and the Iroquois locks. I have been told by the people who operate the concession there and the service station that there was a tremendous influx because there was a sign, just a sign along the highway saying that was there.

The St. Lawrence parks, Upper Canada Village, the parkway—it is beautiful countryside, except no one, somehow or other, travelling along that Highway 401—they are coming to the CN Tower and to Niagara from the Maritimes and from Quebec.

Mr. Pelissero: Is there something wrong with that?

Mr. Villeneuve: No, there is nothing wrong with that. We would like to siphon them off for half a day and then let them go again. What we need along the 401, not just along Highway 2 but along the 401—I do not know; the Ministry of Transportation says it is illegal. Heaven knows, I do not want a south of the border syndrome such as we have travelling south. But somewhere in the Lancaster to Cornwall area there should be an advertisement indicating to travellers coming west into Ontario that we have this very scenic, very historical operation ongoing. If they only stopped for half a day; I know we have to keep them an extra day. We would like to keep them overnight but that seems to be impossible.

Mr. Cureatz: It is sort of like the one they have on the 401 coming into Toronto at the Rouge Valley, which I am sure is totally illegal, notwithstanding the fact that then Premier Davis's brother-in-law was on the board of directors for Black Creek Pioneer Village and he happened to be able to get the sign up, contrary to the Ministry of Transportation's jurisdictional disputes.

Interjections.

The Vice-Chairman: Order, please. In view of the time limitations upon us —

Mr. Tully: I think this is an issue that we can—

Mr. Villeneuve: Can I have your support? I have been pushing it outside the committee.

Mr. Cureatz: All in favour?

The Vice-Chairman: This is the kind of issue that would be best dealt with under estimates or more importantly, under questions in the House, but we certainly appreciate—

Mr. Villeneuve: I will tie it back to the advertising budget, which we are discussing, I believe. The advertising budget of this ministry is some \$12 million, in that neighbourhood. I would like to know, first of all, about the St. Lawrence Parks Commission and the way it advertises. Are they tied into you people or are they autonomous?

Mr. Jackman: They are autonomous.

Mr. Tully: They are autonomous in that they do their own advertising. As an operator, they are autonomous, but of course they are probably the most important tourism attraction in eastern Ontario. So from our marketing point of view, they are a very important part of that \$12 million that we spend.

Mr. Villeneuve: Certainly, I would like to see some co-ordination with the Seaway Valley tourist group that operates out of eastern Ontario, as well. Has it ever been explored by either yourselves, the auditor or a combination thereof what the cost might be to set a sign up? If it has to be 1,100 feet off the highway, so be it.

I firmly believe we could siphon off a good deal of the traffic from the Maritimes and from Quebec into the attractions of the St. Lawrence Parks Commission and other related areas in that area if we could only get to the people as they drive along.

Mr. Tully: I think it is a good suggestion. We have a sign committee on signage for tourism attractions all over the province. I think we will forward that one to them. As long as we just go ahead and build the sign and damn all the torpedoes there, you have to promise me that the Provincial Auditor will not criticize me in his next report.

Mr. Villeneuve: As a final observation, I appreciate the fact that a lot of advertisement about the maple syrup ongoing operation right now at Upper Canada Village is being advertised on Ottawa TV stations. I respectfully submit that most of the people in that area know that exists there.

I watch channel 12, CBC here in Toronto, and I see a lot of advertising for Château Frontenac and what have you, advertising a visit to Quebec. Are we doing that for our confrères in Quebec and in the Maritimes, as they come travelling through? Get them thinking about it and then remind them with a good big sign.

Mr. Tully: We have an extensive advertising campaign beginning in Quebec on May 7. I know you will see visible, right now, the Quebec television advertising campaign in Toronto; they have just initiated that. It is the first time they have done television advertising like that here for some time.

Mr. Villeneuve: I think that would be a very effectively spent dollar.

The Vice-Chairman: Thank you very much, Mr. Villeneuve. Being 12 o'clock, I would like to thank Mr. Jackman, Mr. Tully and Ms. McCall. I certainly take this opportunity to wish you success in all your—our—future projects and endeavours. Good luck with your deputy minister's job.

Mr. Tully: Thank you.

Mr. Cureatz: Enjoy it while you have it.

The Vice-Chairman: I remind the members that we will reconvene at 1:30 p.m.

The committee recessed at 12:02 p.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1987:
MINISTRY OF HEALTH

THURSDAY, APRIL 13, 1989



STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Charlton, Brian A. (Hamilton Mountain NDP) for Miss Martel

Cunningham, Dianne E. (London North PC) for Mr. Villeneuve

Cureatz, Sam L. (Durham East PC) for Mr. Cousens

LeBourdais, Linda (Etobicoke West L) for Miss Nicholas

Pelissero, Harry E. (Lincoln L) for Mr. J. B. Nixon

Polsinelli, Claudio (Yorkview L) for Ms. Collins

South, Larry (Frontenac-Addington L) for Mrs. Fawcett

Clerk: Arnott, Douglas

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

Peall, Gary R., Director, Ministry and Agency Audit Branches

From the Hamilton Psychiatric Hospital:

Fyffe, D. Wayne, Administrator

From the Ministry of Health:

Barkin, Dr. Martin, Deputy Minister

Danson, J. Howard, Acting Director, Psychiatric Hospitals Branch

From the Queen Street Mental Health Centre:

Macfarlane, Dianne, Administrator

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, April 13, 1989

The committee resumed at 2:15 p.m. in committee room 1.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1987
MINISTRY OF HEALTH

Mr. Chairman: I am going to recognize a quorum. We are dealing with section 4.9 of the 1987 annual report of the Provincial Auditor. Before us once again is Dr. Martin Barkin, deputy minister; Sue Crawford, the executive assistant and policy adviser to the deputy minister—

Dr. Barkin: No.

Mr. Chairman: She is not here. She will be here momentarily, I am sure.

—Howard Danson, the acting director, psychiatric hospitals branch; Bev Lever, the director of the community mental health branch; and Dianne Macfarlane, who those of you who were with us this morning know is the administrator of the Queen Street Mental Health Centre and the co-ordinator of mental health addictions. Others seated in the room are Janice Blackburn, the assistant director, psychiatric hospitals branch; Wayne Fyffe, administrator, Hamilton Psychiatric Hospital, whom you met yesterday; Gary Renlund, community mental health; and David Corder, the administrator of policy and planning.

I am sure all of you know Douglas Archer, who is sitting on my left and whom we all have to thank for our being together today.

I think it would help us in our focusing of questions if we were to ask the deputy minister if he could respond to the chief concerns and recommendations of the Provincial Auditor. After Dr. Barkin has made a statement, along with any other people in his deputation, I will then ask Doug Archer to make some opening comments and then we will open it to members of the committee.

For the sake of information for members of the committee, as a result of some of the concerns some of you had, and indeed some input we have had thanks to our field trips, we are looking into the possibility of visiting another mental health facility in the province on Thursday or Friday of next week. We are working on that at the moment.

Dr. Barkin: I am pleased to have the opportunity to return to the committee and bring the committee up to date on initiatives that have been undertaken by the ministry which address some of the issues raised in the Provincial Auditor's report of November 1987 and during this committee's subsequent hearings about the province's mental health care system.

Specifically, I will undertake to inform the committee about certain recent steps that have been undertaken and on the progress of ongoing initiatives. I will address the two areas the report outlines: the psychiatric hospitals first and the community mental health services second.

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In the psychiatric hospitals, the Provincial Auditor, auditors and his committee have noted the following areas: hospital staffing, physical condition of the facilities, utilization of facilities and services and management information systems. I will deal with these one at a time.

Staffing: As the committee well understands, one of the most pressing concerns with which psychiatric hospitals have been faced, and the Provincial Auditor correctly identifies this, has been the ability to recruit and retain professional medical staff. This continues to challenge us. The location of some of the hospitals and difficult working conditions have significantly hampered our ability to attract and keep professional staff.

This problem was exacerbated, as the committee raised on our last visit, because there had at that time been no negotiated salary settlement for three years. I believe a committee member, Mr. Jackson, made some very pointed comments about that. I am pleased to report that since then the government and the association representing psychiatrists, physicians and dentists reached a mutually satisfactory agreement last December which, in addition to establishing a mutually agreed wage rate, also provided retroactive salary increases going back to April 1, 1985. We believe the settlement and the goodwill emanating from it will do much to help our efforts to recruit and retain the professionals we need.

In fact, Dr. Bill Copeman, a name many of you recognize as he used to head the province's underserviced area program, has now been contracted exclusively to assist the psychiatric hospitals branch in the recruitment of psychiatrists. Dr. Copeman has already reported an increased interest on the part of professionals in working in the psychiatric hospitals now that the settlement has been reached, and I look forward to positive results from his efforts.

In addition to the shortage of medical staff, several provincial psychiatric hospitals are still experiencing nursing shortages. This is partly because there is an overall shortage of nurses, which I am sure the committee is well aware of, but it also relates to the very specialized nature of psychiatric nursing itself. Lakehead Psychiatric Hospital, the Queen Street Mental Health Centre, which I understand the committee visited this morning, and the Penetanguishene Mental Health Centre are especially affected by nursing shortages.

In response, we have launched a very aggressive advertising campaign and are holding nursing job fairs, we have raised the nurses' salary range ceiling by 4.3 per cent in 1988-89, and the psychiatric hospitals branch of the ministry is actively examining ways in which at least the spirit of regulation 518, a regulation under the Public Hospitals Act which empowers nurses, particularly staff nurses, and involves them in more critical areas of decision-making, can be implemented in the provincial psychiatric hospitals, which are not covered under the Public Hospitals Act or the regulations appended thereto.

In regard to the often extremely stressful working conditions—at times they can be very stressful, as you can well imagine—in which staff at psychiatric hospitals must work, I am pleased to inform the committee that all 10 hospitals now have established a joint management-union forum that will deal with ways in which they can address the improvement of working conditions and morale. In addition, the hospitals have all started training programs in

the area of helping staff cope with what can be at times extremely disturbed patient behaviour that can test the ability to cope of even the most experienced staff member.

In a further effort to attract professional staff to psychiatric facilities, we have recognized the need to improve the facilities' image generally in the communities in which they reside. The community advisory boards that have been established in each of the communities served by our hospitals all have public relations officers working actively now in the community to promote a very positive image for the facility in the community within which it resides.

Hospital administrators, and we have two with us today, are also attempting to strengthen their facilities' affiliation with local universities from a teaching and research perspective. We believe this is a very important part of maintaining staff morale and contact with one's peers. Just a few examples: Kingston Psychiatric Hospital will soon have a new assistant administrator of operations who is affiliated with Queen's University; Brockville Psychiatric Hospital now employs four residents from the program at the University of Ottawa; Hamilton Psychiatric Hospital is on several research programs in conjunction with McMaster University; and the Queen Street Mental Health Centre works with the University of Toronto.

We expect that all of the initiatives I have just outlined will have a positive effect on our psychiatric hospitals' ability to attract and keep the staff they must have to function effectively.

The second issue that was raised by the auditor was the physical facilities themselves. The committee will remember that the Provincial Auditor's report made note of the poor physical condition of many of our psychiatric hospitals. It is generally acknowledged that primarily because of the age of these facilities, either extensive renovation or, in fact, probably complete redevelopment would be most appropriate for some of them.

The ministry itself has identified a number of improvements that need to be made in all 10 hospitals and has submitted its findings to the Ministry of Government Services which, as you are aware, is responsible for the financing of such projects within the government.

Some projects are already under way. The activity centre is under construction at the Oak Ridge division of the mental health centre at Penetanguishene, and I will say some more about that shortly. The Whitby Psychiatric Hospital will be completely redeveloped over the next five years in conjunction with a significant increase in community and hospital resources in its catchment area. Dianne Macfarlane, who was part of that process, can give you further clarification if the committee so wishes.

There are other major projects to assist with patient comfort, however; air-conditioning and ventilation projects still need to be brought on line. The psychiatric hospitals themselves, as you know, are responsible for their own minor internal renovations and have, as part of their budget, an amount that is roughly 3.5 per cent to 3.6 per cent. These renovations for patient comfort are proceeding as quickly as possible within that spending framework; I understand the committee has seen some examples of that in its tour of the two hospitals it saw.

Another issue raised by the auditor was utilization of facilities. The auditor's report cited problems with the appropriateness of patient mix in the

hospitals. These problems were perceived to be due to delays in establishing alternatives to hospitalization and to continual confusion over the definition of what constitutes competency, a term used in the act about which there is not uniform agreement and understanding as to its meaning.

The ministry has several initiatives under way to attempt to deal with those concerns. Among them is the Weisstub inquiry. In April of last year, the ministry announced the establishment of an inquiry board headed by Professor David Weisstub of York University to recommend standards for determining when a patient is or is not to be declared competent or incompetent. We expect his final report to be released this September and Professor Weisstub is to be providing the ministry with an interim report later on this spring.

The auditor raised outreach programs. A number of psychiatric hospitals are currently enhancing their outreach programs in areas where services are not readily available in the community. Penetanguishene, for example, has started a clinic in the downtown area, Kingston has a similar project with the Metcalf Outpatient Clinic and Hamilton has a proposal for geriatric outreach programs with several community agencies. I understand the committee did visit the geriatric facilities inside the Hamilton centre. All three projects are being developed with the assistance of the hospital staff itself.

We have also undertaken and hired outside consultants to conduct operational reviews of three hospitals in fiscal 1988-89 and 1989-90. The reviews have already helped management by suggesting a number of ways in which resources can be used more effectively and ways in which management and operational practices can be enhanced for the benefit of patients. In each hospital under review there is a steering committee that has been set up to oversee the implementation of the consultants' recommendations.

I think we recognize that we still have some way to go before we could say we are making the best and most efficient use of our facilities and services. However, I think we continue to make progress in the right direction.

Management information systems was another issue raised by the auditor. The Provincial Auditor, as you will recall, made a number of comments about the collection and use of management information within the psychiatric hospital when I was last before this committee. A computerized management information system has recently been introduced into the psychiatric hospital. This system is designed to integrate admission, discharge and transfer data with hospital financial management information, inventory control and pharmacy data. We discussed our intention to do this at the last meeting of the committee. I am pleased to say this is now moving along.

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This improved system of data collection and analysis allows comparison of information among the psychiatric hospitals once staff training and some program adjustments have been made. The psychiatric hospitals branch has established a working committee to examine the ongoing management information needs of the hospitals and branch requirements to determine how they can best be provided through this computer system. I am confident the system will be able to produce useful comparative as well as hospital-unique information with further staff training and experience and is an important instrument for quality assurance, monitoring recidivism and that kind of thing.

I also want to mention, indirectly related to my statements on management information, that the ministry itself has taken an overall step in

the area of management information systems and has recently announced the appointment of Dr. David McNaughton as the assistant deputy minister for claims, payment and systems for the overhaul of the entire computer system and programming in Kingston. Although this is not the subject of the meeting today, it was indeed a significant subject at our last meeting before the committee. We expect that Dr. McNaughton's branch will now provide great assistance on the application and use of management information technology in our psychiatric hospitals.

I have a few comments on the psychiatric hospitals themselves. On the Encon Insurance Managers study of Brockville Psychiatric Hospital and the outcome of recent work action at Oak Ridge division in Penetanguishene, in November of last year, the Ministry of Health released the Encon report on risk management systems for patients on warrants of the Lieutenant Governor. Immediately upon its release, the minister directed ministry staff to implement the final six recommendations of the report, which deal with policies and procedures that will strengthen the existing system for managing Lieutenant Governor's warrant patients in our psychiatric hospitals.

We have also begun to develop a co-ordinated approach to the management of forensic patients in conjunction with the Ministry of Community and Social Services, the Ministry of the Attorney General, the Ministry of the Solicitor General and the Ministry of Correctional Services. This group is to address several of the recommendations in the Encon report, and Dianne Macfarlane is intimately familiar with the workings of the forensic group and can answer specific questions on its state at the present time.

As the committee is aware, the elopement of an LGW—forgive me if I use some short forms that elude you; stop me if I get into the jargon, please—Lieutenant Governor's warrant patient from Brockville early this year and the stabbing of a Brockville area woman by another LGW patient who was living in the community led to an investigation by the ministry into the operation of the forensic unit of the hospital in February.

During that investigation, a number of operational difficulties were identified, and the following actions have been taken. A full operational review of the hospital, including the forensic ward, has been started by an external consultant. Dr. John Bradford, a noted forensic psychiatrist from the Royal Ottawa hospital was retained to examine certain LGW patients and the privileged levels they enjoy in the hospital or in the community. Dr. Malcolm McCullough, a world-renowned forensic specialist, has also been invited to assess the operation of the forensic ward itself. The administrator on duty at the time of the two incidents has been placed on leave of absence with an assistant administrator from North Bay temporarily assigned to the hospital.

As the committee is also aware, there was a recent work action at the Oak Ridge division of the Penetanguishene Mental Health Centre. The dispute was resolved through discussions between senior management at Oak Ridge, senior ministry officials and the Ontario Public Service Employees Union. During these negotiations, the ministry once again reaffirmed the minister's stated commitment that Oak Ridge's rebuilding was the top priority of the psychiatric hospitals for rebuilding at the present time, after the Whitby project goes to completion, or perhaps in the process of.

In fact, several changes have already taken place at Oak Ridge—and I alluded to those earlier; let me detail them now—as a result of implementation of a report submitted by Dr. Hucker which was released in 1985.

As I mentioned earlier, construction of the \$4-million activity complex is already under way. A number of other initiatives were agreed to, and management and the Ontario Public Service Employees Union have agreed to establish a joint committee to look at a number of security issues. A job audit will be conducted to get a better delineation of the roles and responsibilities of registered nurses and attendants on the wards as well.

I think I should point out that OPSEU has agreed to return to the regular meetings of the local employee relations committee. I am pleased to hear that this is so, since I think their absence from this committee was partially accountable for the work disruption and I think their presence at the committee is indeed a salutary sign.

That concludes my comments on the psychiatric hospitals themselves. I am sure there will be more detailed questions from the committee. I would now like to turn to the concerns noted by the Provincial Auditor and this committee about the community mental health side of the equation.

Mr. Chairman: I am worried that our time today might get scattered and that we might end up dropping our pearls of questions all over the place. I wonder if we could perhaps be a little bit more focused if we left the community mental health until later and deal with the other issues you have raised at this time, and then I will give you an opportunity to make your comments on that a little later this afternoon.

Dr. Barkin: Whatever is the committee's pleasure.

Mr. Chairman: I am going to suggest to the members of the committee, because we do have so many topics to deal with, that we deal with them by topic. Rather than have the Provincial Auditor now make a prolonged statement on what Dr. Barkin has informed us in response to our concerns and the concerns of the Provincial Auditor, I am going to ask the Provincial Auditor to address himself to each of the categories and then we will open it up for questions on each specific category and go category by category.

The issues we will be dealing with before we get into community mental health will be the staffing problems in the psychiatric hospitals, the substandard physical facilities, the inappropriate utilization of facilities and inadequate information systems. After that, Dr. Barkin can address himself to some of the community mental health problems.

I am going to ask our auditor if he would be kind enough to respond or comment on any information he cares to share or questions concerning the staffing at the psychiatric hospitals.

Mr. Archer: Again, I do not know that I can add too much to what has transpired already. Maybe I could just summarize briefly the staffing problems we found in the course of our audit.

Of course, number one was the staffing shortages. In addition to that, we found that part of the problem may have been in the issue of staff, and one area particularly we noted was what we deemed to be a costly approach to patient restraint and how one hospital seemed to have gotten around that problem by a somewhat innovative approach. Perhaps that approach, or something similar to that, would be applicable elsewhere.

We also commented on inadequate information for planning and assessing the use of nursing resources. A further comment was made with regard to the

management of dietary and housekeeping services, which we felt, on the whole, could be significantly improved. I think they were generally the main thrusts of our comments with regard to what we perceived as the staffing problems at psychiatric hospitals.

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Mr. Callahan: Dr. Barkin, you alluded to the point that within the budgets of the institutions themselves, they had some \$3.5 million for minor internal renovations.

Can I inquire of you as to whether or not a washroom for, say—I am speaking specifically of the geriatric unit which we visited at the Queen Street Mental Health Centre today. There were situations where in the washroom for the disabled, the tub was located in such a way that if you put a lifter in there, you could not get anybody on the lifter. That was one. The other one, as I recall, was the washroom facilities and the way they were screened for individuals using them. Now, are they considered to be within the framework of minor internal renovations? Another one would be, perhaps if there is a lip on the shower facility, changing that from a lip to something over which you could get a wheelchair. Would they be considered minor internal renovations?

Dr. Barkin: Shall I answer that?

Mr. Chairman: I do want to emphasize that if we are going to get through our agenda, we should deal with them in the individual categories.

Mr. Callahan: Well, I am into the individual categories. I am into the category of inappropriate—

Mrs. Cunningham: Substandard physical.

Mr. Chairman: The topic we are dealing with at the present time is staffing.

Mr. Callahan: Well, if you have any questions about staffing, ask those first, but I still want an answer to that question.

Mr. Chairman: Perhaps you can answer that question and then we will move on to staffing, which is the item we are dealing with at the moment.

Dr. Barkin: The number which I mentioned was 3.6 per cent of the budget, not \$3.6 million. That is usually negotiated between the individual hospital and the Ministry of Government Services as to what is considered a minor renovation that can be done within the hospital's budget allocation for those purposes and what is up to MGS.

I have not visited the specific washroom which you have alluded to, but I can speak generically. Sometimes a washroom renovation is a few dollars, and that would fall within that category. Increasing the size of the washroom, as you have described, or putting in a lift would probably be a major issue because it would involve moving the wall in buildings that were built with fairly solid walls.

As a generalization, some renovations are clearly minor. They are prioritized, with the institution itself determining what should go first and what should go second. Most of those that you have described fall into the

minor category. Some would have to be done by our landlord, the Ministry of Government Services.

Mr. Callahan: Okay, just one other question, if I could, very quickly. I discovered to my surprise that at the Queen Street Mental Health Centre—and I am not sure whether it fits into any of these categories; I hope it does—something like 80 per cent of the patients are schizophrenics. Is that correct? Perhaps I could ask Dianne that.

Ms. Macfarlane: That is a little high, but certainly the single largest diagnostic category would be schizophrenia.

Mr. Callahan: I hasten to go beyond that and ask, is that as a result of the present situation under the Mental Health Act in dealing with schizophrenics?

Ms. Macfarlane: I do not think the diagnostic categories have changed much over the years.

Mr. Callahan: They have been pretty well schizophrenics from day one.

Ms. Macfarlane: It is one of the two or three major mental disorders that the psychiatric hospitals deal with.

Mr. Chairman: If I may, though, it is not 80 per cent of the staff that is schizophrenic, and I wonder if we could get on to the topic of staffing. We can deal with those other topics later. We are starting to do what I was afraid we might do.

Mr. Adams: On a point of information, Mr. Chairman, on this diagnostic class, that does not mean they all need the same type of treatment. Surely, it covers a range of conditions.

Ms. Macfarlane: Yes.

Mr. Chairman: Mr. Cureatz, on the topic of staffing.

Mr. Cureatz: It is not particularly related to nursing, but Dr. Malcolmson brought up a degree of frustration. He seemed to be very forthright and concerned about the facility on our tour. I think he and all under him are working very diligently in trying to provide a service for us.

Now, I may have the terms wrong, but I thought maybe a further explanation would help, where he indicated there seems to be a discouragement from the ministry of psychiatric doctors coming into the hospital, because the government does not pay for block time. He gave an example that it is more beneficial in terms of monetary terms for the psychiatrist to remain in his office and see patients on an individual time than it is to go down to Queen Street and meet people there either in groups—well, that is what he told me this morning, so I thought I would just ask right away. He said that he felt the situation was being turned around, because we are trying to encourage private doctors to come down, and with this billing process we are discouraging them from coming down.

Dr. Barkin: I am not sure to what he is referring, but the psychiatrists who work in the psychiatric hospitals—

Mr. Cureatz: Mr. Archer seems to have a good handle on it. Can you

help me out? Somebody?

Mr. Archer: I think, Gary, you were there.

Dr. Barkin: I want to make sure I am answering the right question, so why do you not take it?

Mr. Peall: He was just talking about sessional fees and the practice of providing a sessional fee to a doctor to come in and spend some time in the hospital and see whatever number of patients that time buys. But it is not geared to the number of patients he sees. It is strictly a block of time, unlike under OHIP where they are billing for whomever they see.

Dr. Barkin: Oh, I see. All right. I think that clarifies it. At the present time our psychiatrists who work in the psychiatric hospitals, as I mentioned earlier in my presentation, have reached an agreement with the government—a retroactive agreement—which has found most of the psychiatrists quite pleased with the outcome of that process. We have had pictures on the pages and handshakes, so I am satisfied that for the psychiatrists who work there we have come up with a very satisfactory agreement.

The salaried psychiatrists also see patients independent of a fee-for-service arrangement, and so I am not sure of the nature of the question. If he says a payment mechanism is more productive than another payment mechanism, at least that is what I understand—

Mr. Peall: He expressed satisfaction with the agreement in terms of the salaried doctors, but he was saying that it did reduce his flexibility in terms of trying to get extra help from outside to come in, because it was more financially rewarding for the doctor to stay out in the community and see patients out there rather than see the more severe ones he could serve in the hospital on a sessional basis.

Dr. Barkin: The difficulty in attracting specific specialists into specific regions, whether it is a specialty area or a remote region of Ontario, is well recognized. It is a function of quite a number of factors, some of them related to compensation—I guess that is the factor he is relating it to—and some of them related to the simple availability of those kinds of specialists, and some of those related to compensatory alternatives—I guess that is the point you are making—that are more lucrative on the outside.

There will always be situations where a physician in one environment can earn more than a physician in another environment. That is why we have different specialists and different ranges of income. I cannot comment specifically on what you have in mind here.

Mr. Cureatz: Well, just one final question, Mr. Chairman. His concern was that it is healthy for the institution to be bringing different people in, not only in terms of them assisting the patients, but also in terms of hands-on training for new staff who are coming in.

Dr. Barkin: I would agree with his second observation. The institution is a training site and is indeed a very valuable resource. In terms of bringing in physicians, I hope he is not meaning—and I do not know exactly what he is saying—that one should be bringing in physicians on a sessional basis, since in this particular area of continuity of care, the ongoing relationship of a patient with a specific physician is a critically

important part of private care.

Mr. Cureatz: No, I understand that. We did not have a chance to get into the situations where an outside doctor would come in. We did not ask that, but there must be situations. Dianne, you must know; are there situations where it happens?

Ms. Macfarlane: Some of the medical specialties we have in on sessional fees: gynaecologists, etc.

Mr. Cureatz: I see.

Ms. Macfarlane: When he is talking about psychiatrists, there is no retro increase in the sessional fee.

Mr. Cureatz: Maybe I am wrong. Maybe it is not necessarily psychiatrists; maybe it is in terms of the general specialists.

Ms. Macfarlane: I would have to have heard what he said, and unfortunately I was not there.

Dr. Barkin: General specialists certainly come into psychiatric hospitals for other than psychiatric conditions of patients and will have gynaecological and medical knowledge orders. They may come in on sessional fees and they may in fact come in on fee-for-service arrangements. That is something that is done quite locally and we do provide full comprehensive medical care in addition to psychiatric care for the patients while they are in there.

Mrs. Cunningham: In the recruitment of psychiatrists, is there any direction as to what kind of psychiatrist? My bias, of course, in this whole area is the great shortage of adolescent psychiatrists in the province, especially as we find in our offices when families come in when this sad illness has just been diagnosed. They are on tremendous waiting lists for the young, basically male persons in their families. In London, I think we may now have only two adolescent psychiatrists in the whole city.

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Dr. Barkin: Recruitment to the city itself?

Mrs. Cunningham: No, in the province, I think. You were speaking in your notes about Dr. Bill Copeman and I was relating to you, as an elected person, the problem that I see in my office.

Dr. Barkin: The issue is the training of psychiatrists in those particular areas. I have had a number of meetings, the most recent one within the last two weeks, with the Council of Faculties of Medicine, which is the deans of all of our medical schools, to relook at the residency situation and the number of doctors who are coming out. As a result of those meetings, we have determined that the ratios that they are using do not reflect the current provincial needs of 1988-89 and probably will not reflect the needs, since training programs address 1991-1992.

The issue is not so much recruiting them in, but training them as they come through. What we discovered as a result of our meetings with them is that the Council of Faculties of Medicine deans' manpower projections on which residency allocations were determined were based on the ratio of specialty to

population as it existed around 1981-82 and that the residency positions were geared to those particular population ratios.

In the interim, the nature of specialties has changed. In the area that you have described, adolescent psychiatry—and I presume from the comments you are referring to, psychiatrists available to treat the very severely psychiatrically ill, the schizophrenic adolescent—the vast majority of adolescent psychiatry time is, in fact, now spent with adolescent behaviour issues. You read it on the front pages all the time.

We simply have a province-wide shortage that needs to be addressed through the training program. The Council of Faculties of Medicine, as I have said, is dealing with reapportioning the residency slots to ensure that is so. But I think we are going to continue to see a shortfall in that area for the short future.

Mrs. Cunningham: When you talk about recruitment, you are also telling us that you are very concerned about training.

Dr. Barkin: Yes.

Mrs. Cunningham: I hope that was a real issue. It is not my field, but it certainly is very apparent in my office, which I found very surprising and shocking. I probably have 15 people who had really very few places they could go. That is a lot.

The next question has to do with your points, which of course were relayed to us, about the nursing shortage. In the Queen Street Mental Health Centre, they advised us and we were also advised in our notes that we are looking at a shortage of some 40 nurses. I was advised that even if they were able to hire the 40 nurses, they did not have the budget to cover them, anyway. I pursued it. Is there some formula that looks at a level of care meaning, "This is what your hospital should have"? Obviously, if you are short 40 nurses, somebody somewhere has told you that you need 40 nurses.

At the same time, they apparently are overspending their budget now. If they were to hire 40 nurses, which is a lot—you are looking at 80 per cent of the budget being personnel—they do not have the money for the 40 nurses even if they could find them. Would you like to respond to that dilemma?

Dr. Barkin: There are two questions if I understand. I will just play them back and make sure I got them. First, is there a formula on staffing that is reliable that you can look at, and second, in this situation, how does the budget relate to the staffing that is there and what happens when you need staffing that exceeds the budget? I will let Dianne to take the second question—

Mrs. Cunningham: That is the tough one, right?

Dr. Barkin: —because she deals with that quite well, and I definitely will pass that off.

Let me deal with the first one because the first one is probably our biggest dilemma, not only in psychiatric hospitals, but in all hospitals, in that standard ratios of nursing to patient, except in a few exceptions, has become a very subjective delineation. If the nurses on the ward say, "I am tired and I am overworked," as they will on many occasions and generally quite justifiably, the response is, "Well, there must be understaffing." I have to

answer that question now, putting on a hat that I wore when I wore the hat of a deputy minister, because I faced that when I was the administrator of Sunnybrook Medical Centre. Under those circumstances, in the acute care hospital, there was developed fairly solid national standards of nursing staffing measurement indicators, based on the tasks required for a specific patient in his level of care. It was fairly well documented and those things are called patient classification systems. Hospitals that have very good management of nursing staffing will have put in a patient classification system that is easily auditable. It is usually posted on the wards where nursing management can go around and audit and make sure nobody is playing with the numbers, and it can be done in the acute care hospital.

Outside of the acute care hospital, national standards on developing patient staffing are less well agreed to, so when one says, "Is your staffing high, low or indifferent?" it is sometimes hard to have a standard to go to.

The areas that are particularly problematic are long-term care institutions, where there is not an agreed to patient classification system, and critical care facilities where, once again, we have not got an accurate and agreed to system, but hospitals do use these. There is considerable variation, and Dianne Macfarlane will speak to the state of the art in the psychiatric hospital. I think that is probably as long an answer as you want; everything you wanted to know about patient classification systems.

Mrs. Cunningham: No, it was great. It is just that in my position as a politician you read that the operational issue is this, and you do not think up the number 42, so obviously we think in our tour that the hospital is short 40 nurses. Who says so? I mean, if you ask teachers, "Have you got enough teachers?" they will say, "No." I understand that ministry more than I do Health, so that is why I was asking the question.

Dr. Barkin: In that there are standards, they have been developed, you can work to those standards, and if I can go back once again to my former position, having done that in a climate where the general hue and cry was that we were short about 100 nurses—Sunnybrook is a fairly large hospital—by the time we had done, we actually found that by moving the staffing in the right places we had probably enough plus a few extra to put into our critical care unit. Good staff management certainly can staff you well. It is a question of having the flexibility to move your nurses around. Dianne, do you want to take the psychiatric side of the equation?

Ms. Macfarlane: An easy question: The patient classification systems in psychiatry have not been as well developed or as quickly developed as those in the acute care settings. However, approximately six of the 10 psychiatric hospitals do have patient classification systems at this point in time. At the Queen Street Mental Health Centre, we took an existing system and tailor made it to our particular setting. We have just completed the pilot pretest for that and hope to have it implemented on a phased-in basis over the next 12 months. That will give us a more precise answer to the question of what is an appropriate level of staffing on a ward-by-ward basis in terms of level of acuity of the patients, etc.

I do not like to contradict any of my staff, but I would want to say that for the 40 to 50 vacancies in the nursing department that we have been experiencing for the last year and a half to two years, which by the way is no different from most other downtown Toronto hospitals in the nursing profession, we have hired those bodies through agencies. Those positions have not been vacant. The quality of care, the staffing-to-patient ratios, have

remained the same. We simply have not been able to hire permanent staff for those vacancies, and the discrepancy between the approved budget we have and the dollars we would need if we had all those positions filled with permanent staff is not significant, so I would have to contradict the information you received this morning.

If I could just make one comment about constant observation, and we talked about this at Queen Street today and I expect you talked about it in Hamilton, what has made it difficult for us to control the budget has been the increase in the need for constant observation, the one to one. That means you have to hire supplementary nursing staff to come in and do that. That is where the increases in the expenditures have arisen in the last couple of years in several of the psychiatric hospitals. That is above and beyond your regular daily needs for staffing on the wards.

Mrs. Cunningham: Most of the information was not from your staff; it is from this report, which you may want to look at, and a board member. We are always in need of great amounts of professional development, as you know.

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Ms. Macfarlane: Board members are great lobbyists.

Mrs. Cunningham: Yes. Great. Dr. Barkin mentioned the spirit of regulation 518. I just want you to clarify it for me. Would you tell me how that is different from psychiatric hospitals?

Dr. Barkin: The psychiatric hospitals are not covered under the Public Hospitals Act, so although the regulation is a regulation that is binding on the public hospitals, it is not binding on the psychiatric hospitals. Nevertheless, our instructions to our administrators are to involve staff nurses now on the committees in the same way as is in the regulation under the Public Hospitals Act.

Mrs. Cunningham: Effective as of what date?

Dr. Barkin: Effective as of when we made the regulation effective for the public hospitals.

Mrs. Cunningham: December, was it not?

Dr. Barkin: February.

Mrs. Cunningham: February. Okay, thank you.

Mr. Adams: I understand that the salaries of nurses in the psychiatric hospitals are lower than those in the public hospitals, yet at one time, presumably reflecting the stress of the work or something, they were actually higher. I understand that in some other jurisdictions they are still higher. Given that we are now dealing with a core of psychiatric patients in the psychiatric hospitals, therefore with the more difficult situations, do you think it is appropriate that the psychiatric nurses should be paid less?

Dr. Barkin: I think you are aware, Mr. Adams, that the wages of the psychiatric nurses in the system, whether it is psychiatric hospitals or public hospitals, are a matter of negotiation by their union and the bargaining unit that is affected, so our psychiatric nurses would enter into that negotiation as is appropriate by the union agreement. In most of our

public hospitals there is a central bargaining process between the Ontario Nurses' Association, the bargaining agent for the nurses, and the employer, whose agent for the negotiation is the Ontario Hospital Association, although that, as you know, has to be ratified by each individual hospital after it has been approved.

I do not know that I would want to comment, or that I am qualified to comment, on whether that collective bargaining process has resulted in a fair and equitable wage comparison between those. That is the outcome of a collective bargaining process.

Mr. Adams: I understand that. Let's accept that the staffing is okay. I understood the debate, the different points of view, as to whether there is actually understaffing, but it seemed to be clear from both hospitals that there is a considerable turnover. One expects a turnover in a profession, but my impression was that it was larger than was healthy. I understand all you have just said, but if there is a significant difference in the salaries and if there is a shortage of nurses, it is quite clear that the psychiatric hospitals are going to lose out and that this turnover will continue.

Dr. Barkin: Perhaps Dianne can directly cover the issue on turnover and salary discrepancies. You are closer to that set of numbers than I am.

Ms. Macfarlane: I think nursing recruitment and retention right now is an issue in almost every downtown Metropolitan Toronto hospital. I do not think it is specific to psychiatric hospitals. My understanding is that there is a small gap between the salaries of nurses in psychiatric hospitals and those in public hospitals. On the other hand, all the major nursing reports that were completed this past fall strongly suggest that salary is not the only issue and not even the single most important issue when talking about recruiting and retaining nursing staff.

Mr. Adams: What is the main issue?

Mrs. Macfarlane: Working environment, working conditions, job satisfaction, opportunities for further training, upgrading and continuing education, opportunities for promotion.

Mr. Adams: And you are addressing those?

Ms. Macfarlane: Trying to.

Mr. Charlton: On this whole question of staffing, although either of the administrators may want to comment, I would certainly like to hear the ministry's view of the issue as well. One of the things we heard quite a bit yesterday in Hamilton, and to some extent this morning at the Queen Street Mental Health Centre as well, is the whole issue of what has happened in our mental institutions, our psychiatric hospitals, as the system has contracted over the last 20 years and as the system has been more and more successful at putting a lot of what used to be permanent or semipermanent patient populations out into the community. Those hospitals, in effect, have seen an intensification in the wards they are still operating in terms of the level of patient care that is required.

You have already told us that the patient classification systems in psychiatric hospitals are not as precise, on the one hand, or at least as broadly agreed to as in the acute care hospitals, but to what extent has the ministry stayed on top of the degree of change that has resulted?

I do not know what the numbers would be at Queen Street, but in Hamilton, for example, over the last 20 years, that hospital has shrunk from a hospital that was designed to service 1,800 inpatients—probably never having more than 1,500 to 1,650, something like that, in actual beds—to a point where now its inpatient population is averaging around 285. I think they are bedded for 325.

To what extent in the funding formulas the hospitals are asked to operate with has the ministry stayed on top of and been aware of that intensification that is going on?

Dr. Barkin: Not only are we very well aware of the intensification, but we are also aware of the changing patterns of care and the changing effects of medication on the patterns of care. I will allude briefly to a changing pattern of care, for example.

Dianne already mentioned the issue of constant observation, and one of the issues raised by the Provincial Auditor was the amount of staffing that is required when you deal with patients who are under restraint, as opposed to the staffing that you would use if you changed your pattern of care to use observation and other forms of management.

We are aware of those changes even in the changes of the pattern. How sensitive are our markers in terms of budget versus staffing? There are regular meetings between the administrators of the hospitals and the ministry. We actually moved on our recent shift at the psychiatric hospitals branch into the public hospitals branch so that we could try to get the same kind of expertise that is available to us at public hospitals looking at the standards in our psychiatric hospitals.

As I mentioned in my comments, I think the psychiatric hospitals have a way to go in many areas to reach the same standards of physical facilities. As far as the staffing of our public hospitals is concerned, I wish I had better markers, as I indicated before. That does not stop us from working towards developing markers and testing them out. I think you heard a description of how those work.

Mr. Charlton: Perhaps we could hear comments from either or both of the administrators in terms of their views of how this intensification process has affected their ability to staff the wards.

Ms. Macfarlane: I have no further comment.

Mr. Fyffe: Speaking from—

Mr. Chairman: Would you be kind enough to speak into a microphone.

Mr. Fyffe: Speaking from the Hamilton Psychiatric Hospital's perspective, you are quite correct in terms of the major changes that have occurred over the last 20 years. I think what you have heard explained to you is that those changes have caused some vacillation in terms of the definition and the need for certain concentrations in staffing ratios. As those patterns of care change, along with the numbers, there is a constant struggle to determine what the appropriate staffing ratio should be.

Most of the staff in my hospital at this time would tell you, and I am sure you have heard if you did not hear it from me the other day, that relative to the staffing ratios in place in public hospitals where there are

psychiatric wards, we feel there is a need for an adjustment upwards in the psychiatric hospitals.

The ability for us, as managers, to accommodate that change is hampered by what you heard before in terms of the lack of national standards to refer to. I think that is probably the crucial challenge for all of us, to establish those standards, to try to relate them with some consistency to what is going on with the type of patient who would appear on the psychiatric ward of a general hospital compared to the type of patient who would end up in a psychiatric hospital and utilize some similar formula so that you can reach that decision.

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Mr. Charlton: The question for all of you then is, how close are we? Everybody keeps saying: "We're working on standards. There isn't broad agreement, but we're trying to establish some agreements." How close are we really to resolving the question for our psychiatric hospitals of standards in terms of patient classification and staffing ratios?

Dr. Barkin: I can only answer that question if the implementation process at Queen Street turns out to be successful and appropriate. Then I will say, "We're very close and what's about to happen in the next 12 months will give us the answer." I think we will know much better as they test out this classification system and its method of dealing with it.

If I have left the impression, I should point out that it is not correct that a classification system tells you what you need in terms of the overall hospital. A classification system recognizes that the particular patient at a particular point in time in a particular location in the hospital requires a certain level of nursing services, and those are usually measured in terms of minutes, hours or what have you.

The great advantage of a classification system is that within an overall staffing group available to you, you can move that staff fairly expeditiously to where that staff is needed in a very flexible way, whereas with current hospital staffing you will say, "I've got 10 nurses on this ward and I've got eight nurses on this ward and that's the way they run," independent of the fact that this ward may be very heavily concentrated this week with heavy-nursing-care patients and this ward is a piece of cake.

The classification system is not so much telling you how many nurses you need in absolute terms as it is giving you the flexibility to put the nurses where you need them for the patients who need them. It marries nursing time to patient need as opposed to nursing time per ward, "I've got 10 on this ward or eight on this one."

Mr. Charlton: Remembering, though, that as the intensification process continues the pieces of cake become fewer and fewer.

Dr. Barkin: Yes, that is right.

Mr. Chairman: In your opening statement, you did not directly address the concerns of the auditor on the cost of restraints. You mentioned it in a very circuitous way in your answers on some of the staffing issues. In your response to the auditor some time ago, you basically dealt with two replies. One was that as a result of less use of drugs and that kind of restraint, there was a greater need for staffing or one-to-one sorts of—also

that Whitby was experimenting with ways of reducing the cost.

I am wondering if you have anything to add since you wrote that answer. Have you considered the cost of architectural changes, for example, and the savings that could result from architectural changes in supervision? For example, if you look at some of the hospitals, it is very, very difficult for anyone from a nursing station to see and be aware of what is going on. There has been some expenditure, as we saw this morning, in the use of television cameras for monitoring patients. Are there other things that are going on that you are actively looking at and have you costed them as a possibility of saving money through capital expenditures or other means of reducing costs in terms of staffing?

Dr. Barkin: If you wish, I can go down hospital by hospital on the issue of restraints and what state of the art they are at. As you will recall, last time we said Whitby had worked with the substitution of an observation unit as an alternative in many instances, and as the auditor pointed out, there are times when that is not just better treatment for the patient but may in fact turn out to be more economical treatment overall. These are now under consideration in quite a number of hospitals and quite a number have already implemented them. One of the drawbacks is what you pointed out, the costing and ability to move forward with some physical renovations. I will give you some examples.

The Penetanguishene Mental Health Centre intensive observation treatment unit was completed and began operation in November. It is now called the admission unit; it has that characteristic to it.

North Bay Psychiatric Hospital and St. Thomas Psychiatric Hospital are now in the discussion stage as to how to implement that, again facing some of the problems you have outlined.

Lakehead Psychiatric Hospital: Construction of an intensive observation treatment unit is in the final planning stages. They will need some funding for that. When we see the final plans, we will be able to examine that in more detail.

Kingston Psychiatric Hospital: Plans are under way to establish the intensive treatment observation area.

Hamilton Psychiatric Hospital: A high-care program is proposed and the administrator can tell you at what stage that is. The staff is now working out the plans for that one.

It is happening in some of the hospitals, in others there is a barrier and in still others different alternatives to an observation unit were considered. The hospital that is considering different alternatives is Queen Street, and Dianne Macfarlane can speak to some of the alternatives.

Mr. Chairman: Is there a centralized plan that in fact goes out into the hospitals and works with those individual hospitals to reduce the staff through analysing ways in which that can be done, including any kind of architectural changes that are needed, so that from a cost-efficient point of view you can actually show whether or not it is worth spending that kind of money?

Dr. Barkin: The specific answer to your question is no, there is no centralized process. There is a centralized exchange of information between

the hospitals. Because they are so different, that allows each hospital to determine what is or is not applicable to its own environment. Part of that ties into the treatment decisions taken by the physicians at that hospital with the mix of patients they have to deal with.

Mr. Chairman: I guess my concern would be that if I were the Minister of Government Services and each hospital were coming to me with a list of Christmas needs, I would have a hard job analysing what would be of the most cost-benefit to me, unless there were some effort by your ministry to co-ordinate and therefore be able to rank them in terms of what can be done. Indeed, one of my concerns is that if you tinker with an old building, sometimes after a while you have gradually rebuilt the building three times at a cost eight times what it would have cost to simply tear the thing down. I am wondering whether you are getting into that kind of analysis, so that perhaps in terms of staffing it might be cheaper in the long run to take North Bay, simply gut it and build a new hospital. I do not know.

Dr. Barkin: I did comment on that in my opening comments, that in many instances we think it is more economical not to renovate but to replace. I did not mean to imply in my comments, as I talked about what we allow the hospitals to do in their own renovations pattern, that requests to the Ministry of Government Services go directly from the hospital to the ministry. As my opening comments indicated, we have tabulated a list and sent it forward to MGS.

Mr. Adams: On this business of patient restraint and observation, as I first read it in our briefing, I imagined a space in which there are a reasonable number of patients being observed by relatively few people. We went to the two hospitals and I got the impression that there is an ongoing philosophical and financial, if you like, debate going on in those hospitals as to the value of that approach, whether philosophically it is the best approach for patients and whether financially it is not short-term gain and long-term loss, because if this is not the appropriate way to treat the patients, they are going to be there longer and so on and in the end the cost will be higher. You mentioned there has been no central directive. Is there some doubt about this as an approach?

1520

Dr. Barkin: The question was whether there was a central directive on architectural issues in terms of quality of care and restraint. There are some very rigorous standards on how a patient is managed when he is in restraint.

I should also point out that patients are not in restraint, under normal circumstances, for a long period of time. That is why you usually find your restraint unit at the point of admission. There are circumstances, both with very violent and irrational behaviour induced by acute substance abuse and acute exacerbation of schizophrenia and acute exacerbation of manic depressive disease, where in the natural history of that there is a short-interval episode where the patient is uncontrollable, in physical danger of harming himself and others, and needs to be held under some degree of restraint in order to protect himself or herself while treatment is administered to the point that the patient can then be removed from restraint. We are talking only of a short interval, normally, in the natural history of the care of the patient, usually an episodic one.

Perhaps Dianne might be able to give you a clearer picture of some of

the ways they address this at Queen Street, because at times Queen Street perhaps gets a disproportionate share of those acute exacerbations.

Mr. Adams: Just before Dianne does that, what does this Whitby example that has been cited include?

Ms. Macfarlane: It is a six-bed unit with an additional two seclusion rooms.

Mr. Adams: Is it an admission unit?

Ms. Macfarlane: It is on an admission unit, but it is a separate area that was especially renovated for that purpose.

Mr. Chairman: One last question, then, Doctor: One of the areas I think we would probably agree about is that there is no one profession that is in the helping of any one particular mental health disorder. I am wondering what you may have done in the light of the shortage in northern Ontario, particularly of psychiatric services, towards replacing some of those psychiatric services with practitioners who are able to offer treatment, such as psychologists, psychiatric social workers and other people.

I recognize it is hard to attract professionals of any kind into some communities for various reasons that you have elaborated, but is there a concerted effort on your part at professional replacement of other professionals who can deliver services, particularly in hard-to-reach or hard-to-service communities?

Dr. Barkin: As you know, we certainly have the underserved area program, but one of the ways we are trying to address the mental health needs, particularly in the north but all over Ontario, is by the empowerment and funding of total community programs as opposed to funding or seeking a single professional. The point you make that there are many disciplines other than the discipline of psychiatry is a very valid one, I think, and there are many community-based programs that one can use and fund for that purpose.

I will give you a couple of examples of some that are in the north in particular, and in some particular high-risk areas, that were funded by us where not only is the professional medical psychiatric service not available to us, but may in fact not be appropriate to the task.

One of the examples we funded this year, for example, was an attempt to deal in a particular community of the Ojibway in northwest Ontario, in Kenora, where the issue of adolescent suicide was a very significant one in that community and where our conventionally trained psychiatric services, simply because of the cultural differences and the communication differences, were not appropriate to the task, and even if they were appropriate to the task, were not available to us.

In that sense, we set up with the family elders of the Ojibway tribe a family service for native youth counselling within their own culture, within the pride of their own society. We funded that to an annual budget of \$250,000, for example, and it is intended to help reduce the incidence of suicide and self-destructive behaviour of the young people there in the 16 to 24 range. We are watching that one evolve as a very innovative way of addressing a very specific mental health need in a localized manner.

Mr. Chairman: I gather similar programs are being worked on with

different cultural groups in Toronto. Is that correct?

Dr. Barkin: Yes, they are. We have approximately six multicultural programs now operating. We have, I think, 26 women's programs; there are a total of 15 native programs. Some of them are hospital-based; some of them are in the community. So rather than addressing our attention to funding a particular professional, it is our view that a comprehensive community program is probably more appropriate, although I certainly grieve with the shortage and availability of professionals, because even within those programs they sometimes have difficulty recruiting.

Mr. Chairman: We have talked about this, because one cannot talk about staffing without talking about physical facilities, but I want to move into the area of physical facilities and also the utilisation of physical facilities. I am wondering if Mr. Archer has any comments and then perhaps we can open up that area.

Mr. Archer: I just point out some of the comments we made in our report. We mentioned that the condition of many of the psychiatric facilities was well below the standard expected and actually the standard found in general hospitals, and that many of the psychiatric buildings were old. Five, in fact, of these institutions had opened prior to 1904 and many of the original buildings were still being used.

More specifically, we found that problems existed with regard to patient privacy and washroom facilities, and such things as temperature control and ventilation. One of the problems, of course, is that some of the people served by the psychiatric hospitals today, such as geriatric patients, were not envisaged at the time the buildings were erected, so it is only to be expected that they would have a little problem with such things as washroom facilities.

We noted that some efforts had been made to improve renovations through renovation of the washroom facilities and dormitories and so on. However, such things as improvements to heating and ventilation, air-conditioning and that sort of thing—much greater problems—would require extensive redevelopment of many of the existing buildings, or in fact, building new facilities completely.

I think Dr. Barkin mentioned in his opening remarks some of the renovation efforts that have been undertaken. Perhaps he might want to expand on that a little at this point.

The Acting Chairman (Mr. Polsinelli): Dr. Barkin, would you like to expand on that at this point?

Dr. Barkin: I think that first of all, we agree with the auditor's assessment. Those of you who visited the hospitals will understand in a more graphic way that which he describes.

As I indicated earlier, we did submit to the Ministry of Government Services our priority list and the places where they are. We in fact enumerated them on our list with one to nine for each of the facilities. I can give you some of the examples as they have gone forward. They include Penetanguishene. They include Whitby's complete redevelopment. They include certain comfort cooling to all the wings of the London Psychiatric Hospital and ventilation at the Kingston Psychiatric Hospital. So we are aware of the shortfalls. We have prepared the list. We have priced them as best we can and we have submitted them to our landlord.

The Acting Chairman: We have further members of the committee wishing to ask questions. I believe Mr. Charlton is next.

1530

Mr. Charlton: I think we all understand the politics of the bind you are in. We are part of screaming for money in any number of ministries' programs, etc., every day of every week in this life we lead here.

On the one hand, I understand what you are saying about having identified the problems and having submitted your priority list to the Ministry of Government Services. On the other hand, what we saw yesterday and today were two of the psychiatric facilities in the province. In Hamilton yesterday, we saw the geriatric ward where they have done some, what I would refer to as minor, renovations and a lot of brightening up of the aesthetics of the ward. When you compare that, when you walked through exactly the same ward you had been through in another part of the building where nothing had been done yet, there was a significant difference. But it was not yet all the way to where it should be. It seems to me that especially in the case of mental health, the friendliness and hominess of the physical surroundings is an extremely important aspect of the whole process of rehabilitation.

I guess what worries me about what I am hearing, although I do not know exactly how we address it and I would like your comments on it, is that we were also told that the two facilities we have seen, with the exception perhaps of the regional centre at Penetanguishene, are among the best in the province. I think most of my colleagues who did both tours would agree that they saw significant differences between what we saw at Queen Street this morning and what we saw in Hamilton yesterday in terms of the quality of the surroundings and their appropriateness for the kinds of programs they were trying to deliver in those wards.

If those were among the two best, there are some real problems in the rest of the centres around this province. It seems to me that in the case of mental health, if it is going to take us 15, 20 or 25 years to make a significant impact on bringing those facilities up to standard, there is going to be a lot of damage done and a lot of costs incurred in the mental health system in the process.

Do you have any idea at all? As I say, the Ministry of Government Services and the Treasury stuff are somewhat outside your control, but do you have any idea at all what kind of time frame we are looking at in terms of dealing with what, to a large extent, have to be seriously inadequate facilities?

Dr. Barkin: The inadequacy we concurred with in our statements. I certainly will not argue about that.

You raised two points. First of all, a few dollars, some paint and some brightening up can go a long way in the short term. That is one of the reasons we have set aside in the internally decided renovation—the fix-up, paint-up process—that percentage I referred to earlier of about 3.5 per cent or 3.6 per cent of the overall budget to allow the hospital to do that kind of thing. It is quite impressive what can be done.

On the second side of the question of what the time frame is, you have asked me a question I cannot answer. I do know that we are going ahead with Whitby on schedule. Whitby is on schedule. All things are happening as such.

My cash-flow allotments for this year and subsequently are in keeping with the rate at which they can plan; no slower and no faster. That seems to be in step. The minister indicated that her next priority was Penetanguishene. We have started to look at that one in some detail.

You have described the issue quite accurately. I cannot answer for MGS or the Treasury, but I agree with your assessment of the physical plant out there. It is a troublesome physical plant.

Mr. Charlton: I understand what you are saying. I guess what I am curious about and what we are now considering as a committee is perhaps looking at one of the other facilities, simply because we got told that because of our determination to look at those that were geographically most convenient, we probably looked at among the best. We do not have a good, clear picture of just what the extent of the problem is, but I get an impression from a number of comments I have heard—for example, that in the case of North Bay, the staff should just take the patients home with them so they can blow the place up and start over.

If it is that bad, how long are those people going to be stuck in that kind of circumstance? I think that is the kind of thing that is going to become to some extent important to this committee in terms of how it views the progress that is being made. What are people who are stuck in that kind of situation looking at? Do you have any idea at all?

Dr. Barkin: I do not think I can answer the question. I do not know what the time frame is. I do know that we have delineated what the circumstances are and we understand the problems as well as you do.

Mr. Charlton: A lot better. I have not been there yet.

Dr. Barkin: North Bay, in particular, has gone through some plan configurations which were up and down and that kind of thing. I think that whole planning process is also a difficult one. One needs to know exactly what is happening and have that laid out as it should be. The only heartening thing is that the duration of time which patients have to spend in those facilities is shortening all the time. That is probably the only salutary aspect of the issue.

I agree with you that I would not want to spend a very long time in those facilities, and the degree to which the physical facility may or may not affect a patient's ability to respond to treatment is a real and valid concern. You also pointed out, and we concur, that sometimes even with an old facility, some of the minor renovations are relatively inexpensive but go a long way to brightening those surroundings.

Mrs. LeBourdais: Yesterday, when we were in Hamilton, Mr. Fyffe started out his remarks by saying that he saw mental illness as a disease like any other. Therefore, he felt that mental health facilities should be to the standard of those that we expect for other illnesses, etc.

From my brief exposure, that does not seem to be the case. I am just wondering if we fall into the rather sad situation of assuming that because, for many of those people, the cosmetics, if you will, would not be high on their priority list, they might be oblivious to some things that other hospitals might make a priority. What is the ministry's position?

Second, I found a certain sameness. I do not feel like I have been in

hospitals for the last two days. I feel like I have been in institutions somewhere between academic and correctional. The "correctional" adjective perhaps because of the locked doors, etc. I am just wondering if you would respond to those two areas as best you can.

Also, there did not seem to be the medical feeling. The people are not necessarily physically ill, so there are none of the treatment things. There are none of the uniforms that we might associate. Therefore, it becomes an abstract institution rather than a medical one.

Also, the people there must come from a wide variety of backgrounds, rural and urban, rich and poor, and yet there does not seem to be any differentiation in other hospitals. If you can afford perhaps a private room, are those things available? Depending on your ability to pay, are any of these options available in psychiatric hospitals?

Dr. Barkin: You asked a lot of questions. I will try to get down to them one at a time.

One of the questions which you raised was the different standard of psychiatric hospitals as opposed to public hospitals. That is a very real one. We had some discussion of that, as I recall, at our meeting around this table last time, when I indicated that we would be changing the way the whole branch was organized within the Ministry of Health. Part of that was to change some of the attitudes that surround psychiatric hospitals as opposed to other institutions managed by the ministry.

I think since we last met here, what we did was say the branch that deals with psychiatric hospitals, which seemed to be off by itself, ought not to be handled that way. We have moved the psychiatric hospital system into the overall hospital system of the ministry. That means it is the same capital planning branch that deals with it. It is the same assistant deputy minister. We are hoping that at least that is a beginning of understanding exactly what you said, that this is an illness like any other illness and there ought not to be any reason why the physical facilities available for psychiatric patients should be of any lesser or greater or different standard than they are for any other patients; that is, they ought to be appropriate to the needs of the patients.

Let me also address the fact that as we moved that branch into the hospitals branch, we also created another aspect of the ministry, which was the co-ordinating process, where we recognize that to look at the solution of psychiatric illness purely from the point of view of the institution was probably also a significant deterrent to addressing mental health in Ontario.

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We understand the shortfall of the institutional side of the equation, beyond a shadow of a doubt. You probably will have some chance later today, I am hoping, to get on to the noninstitutional segment. Sometimes one has to make choices of where the dollars should go. If one has to make such choices, our inclination is to try to develop as good a balance as we can between what we see happening on the institutional side and what we can provide with equivalent dollars on the community side. Our view is from the point of view of patient outcome, patient welfare and overall numbers served, not getting too focused on the institutional side of the equation. If you are asking what the ministry's objective is, that is one of its objectives and that is why we did the across-the-board co-ordination.

The correctional atmosphere is problematic to us also. In fact, it leads to some very significant problems in attitudes of staff. We have a historical anomaly in the system which you may not be aware of, but some around the table will be, and that is that the staff from our Penetanguishene facility actually groups more with the correctional services in terms of union affiliation and that kind of thing than any other. That produces some attitudinal problems and training problems and will produce some labour problems that are different from those we would like to see in a hospital.

We have a great deal of work ahead of us in trying to overcome that, even with the staff who exist there, because of that correctional attitude, which is almost a custodial attitude as opposed to a therapeutic helping and healing one. What I am pleased to say is that we have had some very direct meetings on the subject with the head of the Ontario Public Service Employees Union, and I think there is sympathy between the labour side and the ministry side on this one, but the actual job of transformation is not going to be that easy.

I think I have covered most of what you said.

Mrs. LeBourdais: Just briefly, then, is there an option for patients who would be able to pay for more or is everything standard regardless of—

Dr. Barkin: Is there semi-private and private accommodation in a psychiatric hospital system?

Mrs. LeBourdais: Yes.

Ms. Macfarlane: No.

Mr. Callahan: My question is somewhat following up on what Linda said. I do not say this in any demeaning way, but when I went through the Queen Street Mental Health Centre, the walls in the secure area were painted the same colour as I recall seeing in the secure area at the Metropolitan Toronto West Detention Centre. It just does not seem to have any lift. If I were in there, I would feel as though there was no place to go. What is there to get you up? I know that is a minor item.

One further thing was when we went down into the medium security I found that some of the 16 patients had been there a year and some of them two years. I just do not understand that. It seems for some reason, and maybe it is a historical fact, that we are mixing ministries. You almost get a correctional feeling down there as opposed to a health or psychiatric assistance feeling. I do not know how you would deal with it, but it bothers me. I must say I came out of there extremely depressed, I guess because you see all these unfortunate people wandering around. That is all I mean.

You are doing the best to help them, but surely there has to be a better approach than that. Surely having eliminated the institutional care, which started taking place back some time ago, I guess, there has to be some place for these people to go. I understand there is a significant waiting list for facilities there, or at least I was told there was. The question I have to ask is: With a catchment area of 1.2 million people, where are these other people going? Are they in the correctional system? Are they winding up in jails rather than—

Dr. Barkin: Perhaps I will let Dianne answer for the specific thing you have raised, the Queen Street Mental Health Centre, and I will answer for

the generic issue of the long-term chronic patient who requires medium security.

Ms. Macfarlane: I will let you create the context.

Dr. Barkin: All right. I will go first. I think it is very edifying and I am pleased that the committee members did take the opportunity to go into a facility to understand the nature and scope of the problem of mental illness. As Mr. Adams correctly pointed out, it is a spectrum, and one tends from one's perspective to see only a small portion of it.

What you have seen today is the portion that most people never get to see except those who work within the system, and I can assure you that many of them find that surrounding as depressive, having to work in it eight hours a day, five days a week, knowing that the people who are there, given the present state of the art, cannot be made any better than they are, because if they could, we would.

In that whole process of dealing with the sawoff between institutionalization and finding places in the community that will accept such patients, one is torn between the humanitarian interest in trying to care for that person as a person in the best state he has been able to reach, and placing him in a community where he becomes extremely vulnerable.

When you can get them out and have some supervision and there is a community support system, that is fine. You are all aware that the Ministry of Health did get some press publicity recently when we tried to find housing for a discharged psychiatric patient in a particular unit. We actually have to go to court sometimes to make sure that communities are willing to accept such patients.

The nature of the disease, the nature of the patient, is one that is extremely discomforting. It is not a comfortable thing to watch and see, and it is a very difficult thing to try to manage and still retain one's humanity and humanitarian instincts. I wish there were easy answers that said, "We can make these people better and they can go out and live somewhere." It is not that simple.

Mr. Chairman: Mrs. LeBourdais, do you want to continue with your questions? No. I have Mr. Adams, and then I will put Mr. Callahan back on the list if he has further questions on this.

Mr. Adams: Actually, from the visits, I got a slightly different impression than Bob. I would detect the history, particularly in the buildings, but I could sense the change that had gone on. I understand the point about the correctional institution nature of things, but I could detect the changes that are going on.

You have mentioned the anomaly, and I guess there is this union and they are more tied into the correctional side, but it seems to me that, as government hospitals, the hospitals are kind of an anomaly, and I think that is true. I wondered if you could comment on the benefits of their being government hospitals as distinct from public hospitals.

We are dealing with physical facilities. Some of the changes I saw, these beautification changes, for example, or one of the smaller projects in Hamilton where we were talking about tens of thousands but conceivably hundreds of thousands of dollars, in public hospitals very often things of

that scale could be done on a local fund-raising basis, people giving very willingly at that level—I am not now talking about many, many millions—and also a good deal of contribution of volunteer time, not only in raising the money but in perhaps the beautification projects themselves.

Do you think of these as MGS hospitals? Would that be a way to put it? Is that what they are, or are they just government hospitals?

Dr. Barkin: They are government hospitals, I would say.

Mr. Adams: Is there any process of moving away—

Mr. Chairman: Dan Hill might have second thoughts about that.

Mr. Adams: I can well see that it might be difficult to privatize at present, although I have a feeling that I have heard that such things are going on in other jurisdictions, but it would be a sense of moving them into the public sector. Let's face it. We fund public hospitals 98 or 99 per cent anyway. They are government hospitals in that sense, but they are run by the community.

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Dr. Barkin: Let me address your first question, which was: How did they get to be where they were? There is no question your assessment was correct: It is a fact of historical evolution. The Ministry of Health in the government of Ontario, well before health insurance, had two primary roles: running asylums for the insane and operating certain public health measures and setting certain public health standards for disposal.

The Ministry of Health, as you understand it today, as a provider of comprehensive health services under the Canada Health Act and under the rubric of accessibility, universality and comprehensiveness, is a creature of the 1960s and actually the 1970s. The psychiatric hospital system goes back almost to the time the province became a province and probably even back when it was called Upper Canada. So it is a historical event. The next great historical event was the downsizing of that institutional sector and the evolution of new drugs, treatments and concepts in mental health.

The second part of your question was: Is there a reason today that the psychiatric hospitals should be government-run or government-operated hospitals? After all, the public hospitals are virtually "public" hospitals and funded. They are not quite the same, but there have certainly been quite a number of arguments presented in both directions about why the government psychiatric hospitals should stay as government hospitals or why there should be devolution of those hospitals and conversion into public hospitals with boards and budgets and the ability to fund-raise and do that kind of thing.

Your point is well taken. There are arguments on both sides of the fence. The primary argument and obstacle—it is not as much an argument as it would be an obstacle—and this is off the top of my head right now, so I do not want to be held totally accountable to the Provincial Auditor for the number, but I think there are about 8,000 or so employees. The primary issue one would have to deal with would be a labour issue as well as a governance issue on the psychiatric hospitals.

As far as our view of these hospitals now as isolated from the rest of the system is concerned, I think we discussed last time the Whitby model. What

I think is the ultimate argument for maintaining the provincial psychiatric hospital system as a provincial resource as opposed to a local community resource is that it is in fact a provincial resource or at very best a regional resource and operates as such a resource with a hub of hospitals around it.

If we look at the Whitby example, we have a series of general hospitals with their wards, a series of community programs, and Whitby serves as the central hub for referral on a regional basis. It would be very hard, for example, to expect the town of Whitby to run the fund-raising program to support the hospital that serves the wide catchment area around it. I am picking up on your fund-raising suggestion.

Mr. Adams: The fund-raising is one aspect; the involvement of volunteers is another, and I would like to come back to that.

Even in the case of Whitby, which in a sense is serving the entire province but is receiving the benefits of the institution there, I would have thought at this stage—and I see, rightly, that psychiatric hospitals only deal with a small proportion of the psychiatric cases in the province—that in this process of moving from a correctional institution to another institution, a step in the direction of attitude, the question of persuading the community to accept former patients, might in fact be very healthy. Has it been seriously considered?

Dr. Barkin: I am aware of a number of discussion papers that have been present on the subject. They certainly precede my arrival at the ministry, and it comes up from time to time.

Mr. Adams: I was going to go back to the first staffing thing and the use of volunteers, because it does tie in with this. We were given some indication of the involvement of volunteers. Is it as high as you would like? Are you giving that area of staffing, if you like, thought?

Dr. Barkin: Volunteers are a very important part of the health system generally, and they work at a variety of levels. Whether it is a volunteer on the board of governors of a hospital or a volunteer taking a wheelchair in the hospital or a volunteer who is willing to talk to a patient for a period of time, that is very important. So when I make my subsequent comments, I do not want you to think that I underestimate the value of volunteers.

However, in the labour negotiations, the collective bargaining process which I alluded to earlier, there have been some very specific agreements negotiated that place certain limits on the use of volunteers that might, within the institutional setting, displace a gainfully employed individual, so one must be reasonably careful of the use of volunteers.

The general interpretation of the last union contract in the public hospital areas was, with few exceptions, to freeze volunteer levels that are having direct, hands-on patient care at the levels they were at the time that particular collective agreement was finalized. I think that was 1985.

Mr. Adams: Again, I would simply comment that it would seem to me that the involvement of the community in these hospitals, and that includes the volunteers and their presence in the hospitals, is of more importance than it is in the others.

Dr. Barkin: You asked a different question, so I should address

that. These hospitals do have community advisory boards. I commented on them in my opening comments. The community advisory boards in all of the hospitals have undertaken to deal with the image that the hospital has in the community, which sometimes has been a negative one and is now a very strongly positive one.

In addition, we have worked very closely over the past three years with the Ontario division of the Canadian Mental Health Association to try to change the entire image and attitude of the public at large to the whole aspect of mental health.

You are aware that the problem will strike one in five people in the province. There is no family that has been untouched. The stigma of mental illness continues to be one of the chief obstacles to reintegrating those who have suffered from mental illness into the community as a whole.

Our jointly funded—or our funded and their operated—public education program on changing attitudes towards mental illness has been a highly, successful one over the last 12 to 18 months.

Mr. Adams: Thank you.

Mr. Chairman: Thank you, Mr. Adams. I am sure Mr. Callahan and Mrs. Cunningham are pleased that the chairman has come back, because he is going to give them an opportunity to ask some questions.

Mr. Callahan: You are probably going to cut me off because the question I am going to ask—

Mr. Chairman: We still have two more topics to deal with, unless you are prepared to sit until six. I just warn the members of that.

Mr. Callahan: The question I am going to ask first is going back to something I asked before. I thought it was that 80 per cent of the patients at Queen Street Mental Centre are schizophrenics. Can you give me any idea, Dianne, whether that high a percentage of patients at other institutions is also schizophrenic?

Ms. Macfarlane: That is an inaccurate figure for Queen Street, for starters. I could not, offhand, give you diagnostic percentages for the other hospitals. We can certainly provide that.

Mr. Callahan: The reason I ask the question is, you know, we are talking about a facility. If the other facilities are similar and they appear to be crowded—they also appear to have some of the other concerns that have been expressed in questions—surely we need some way of dealing with schizophrenics, if they are all in our mental health facilities.

Surely we need some type of requirement that schizophrenics take their medicine so that they are controlled, to take them out of the category of being within the framework of the Mental Health Act, where they have to be a danger to themselves or a danger to the public. My experience with schizophrenics is they are not a danger to the public until they kill somebody or kill themselves. We could take that whole area out if we had some way of dealing with that.

Dr. Barkin: May I comment on that?

Mr. Callahan: Sure.

Dr. Barkin: The disease schizophrenia, if it were a homogeneous disease, would be relatively easy to deal with. There are patients who are very mildly schizophrenic. They require no medication and function reasonably well in the community with very minimal supports. There are patients who are so disabled by the disease on a chronic basis that one cannot contemplate any other method of caring for them than in some form of institutional and permanent caring setting.

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In between those extremes the spectrum is so wide, first of all, and second, it is punctuated by unpredictable, or very difficult to predict at best, episodic exacerbations. It is during the episodic exacerbations that schizophrenic patients may become a danger to themselves and others. One of the things that has come up in a variety of the reports is that one's ability to predict with 100 per cent accuracy before that exacerbation takes place is about as limited as the limits of human fallibility are in any other area of human judgement.

We have good criteria, we could go on our track record, but the unfortunate truth is that there are times when the best psychiatric expertise, corroborated by additional psychiatric expertise, will not accurately predict an emerging, acute episode where the patient may be of danger to himself or to others.

Mr. Callahan: So that is the rationale for it, although there is a facility being established right now north of my riding which has sort of a farm type of atmosphere in which there have been studies that have shown—and we saw a dog today in the facility—that animals are being used for severely—

But I want to go back because I really think that it is time to deal with the question of schizophrenics, whether they occupy 60 per cent or 50 per cent of our institutions, in terms of taking them out of the category of other mental illnesses, particularly the paranoid schizophrenic who will not take his medicine because he thinks he is being poisoned.

Dr. Barkin: Okay, now I understand the question. To put it in perspective, it may be that 60 or 70 per cent of the patients in the institutions are schizophrenic. That does not mean that 60 or 70 per cent of schizophrenics are in institutions. Only a small percentage who have the disease are in institutions at any one time.

The second half of your question, as I understand it, has to do with the right of an individual to refuse treatment and whether that refusal is related to exercising his proper right as an individual or whether, in fact, that individual can be judged to be competent in the first instance to have made such a judgement.

Mr. Callahan: The question of competency.

Dr. Barkin: Yes. I alluded to that also in my comments and I will say a bit more about that. There is no doubt that the area you broached is an area that is of great concern out there. That is why the minister announced the Weisstub inquiry on when individuals are declared to be a danger to themselves and others, and when those individuals are also to be declared incompetent for purposes of making decisions about whether or not they should or should not be on medication.

Let me also point out that this is having a difficult interface with

another area that we are not able to get easy consensus on, and that is the whole area of substitute decision-making on behalf of patients once they have been declared incompetent. I do not think that society, generally, will face as difficult a problem as deciding where to fall as between the rights and dignities of the individual and the protection of public safety, which is a fairly broad spectrum, and developing good criteria within which to act.

The difficulty is so profound. I got some great insights from and I would recommend to anyone who has the time to look at it—and I know you are all very busy—the recent book that Alan Borovoy, the lawyer who is the head of the Canadian Civil Liberties Association, wrote and released called *When Freedoms Collide*. There is no doubt that this is one of the areas that is easily absorbed in that difficult challenge. When freedoms collide, where within that range can the legislative process provide guidance?

Our view now is, as the minister articulated, that in those two arenas, because it is a question of public value, there needs to be a fairly comprehensive discussion that is open to the public, but in which fairly knowledgeable people in the field participate in a way that the public can hear them. So we have the Weisstub inquiry on competence going on right now.

As I indicated, an interim report is due within the next couple of months, with a final report due in September or October, and we have the inquiry, which the minister announced, into substitute decision-making. I have forgotten the name of the psychiatrist heading that inquiry.

Interjection: Starkman.

Mr. Chairman: Mrs. Cunningham, for a brief question. Not here? Thank you very much, Mrs. Cunningham. We can move on.

Mr. Cureatz: She wanted it to be known that she would still like to make her inquiry.

Mr. Adams: Too late now.

Mr. Chairman: We will let her ask her questions on this subject when she does return. I am sure she will be back.

We have two other areas to deal with. One is the issue of the inadequate information systems. I am wondering if Mr. Archer will address himself to that.

Mr. Archer: In the course of the audit, we concluded that the ministry did not have the information system that was needed to collect the data for either managing existing facilities or services or planning new ones and that, in order to do that, better information was needed from both within and outside the psychiatric hospital community.

We commented more specifically that within the psychiatric hospital community the statistics about the level of outpatient activity were not reliable, the analysis and comparison of information between psychiatric hospitals was not being done and the causes of readmission and referral sources for each patient were not being accumulated and used for management purposes.

Turning to outside the psychiatric hospital arena, we noted that there was no accurate or reliable system to estimate the extent of the demand for new community mental health services and therefore it would be difficult to

locate future facilities and services on the basis of where they were needed most.

We also commented that the ministry had recognized many of the deficiencies in its management information system, that it had installed systems at three of the hospitals at the time of our audit and that it had scheduled the others for completion by May 1, 1988. That was just for the collection of information within the psych hospital itself.

They also had been developing a community program system in an attempt to capture information beyond the immediate psychiatric hospital community, but problems had developed in that particular aspect and they were still working on the resolution of them at the time we completed our audit.

Mr. Adams: On this question of the management information system, when I first thought about it, and I think it is still true, I got it mixed up with what I suppose you would call a medical information system. I understand there are matters of confidentiality there. Yet I have difficulty imagining how a really comprehensive information system can be developed in the psychiatric hospitals and in the community network which is around them without its actually involving the tracking of patients, for example, as a measure of the value for money or the investment put into the care facilities.

Do you feel you are making progress in that area, in this whole matter of an information system which allows the hospitals to know what they are doing, to allow them to assess the results of the care they provide when the patients go out into another sort of community setting and that kind of thing?

Oh, let me say one more thing. It seems to me the more decentralized the system becomes—and let's face it: as you have said, it has become much more decentralized in a relatively short period of time—the more important this sort of information is. It is easy to get it if you have got one building with people in it, but you do not. When you no longer have one building and are dealing with many buildings, many different types of organizations, are you making progress?

1610

Dr. Barkin: The answer to your first question is yes, we are making progress. Are we making enough progress and can we do it within these confines? The answer is probably not. In which confines could it be done? I suspect the answer to that comes when you deal with the entire system that we talked about in another context in front of this committee that is not dealing with mental illness alone but dealing with patients through our total registration load.

Let me explain those three answers. First, are we making progress? The systems which were only in three hospitals at the time that the auditor made the report on which we are commenting are now in all 10 hospitals. The staff are being trained on how to use them and we are using them for the purposes outlined by Mr. Archer.

I think the key purpose for an information system, as far as the patient-care side is concerned, is to take a look at the recidivism—basically, the rate of return of patients; their length of time outside—and determine whether or not you are getting appropriate support.

The problem which Mr. Archer alluded to, however, is that for the

communications between the psychiatric hospital, where the patient may show up from time to time, and the acute care hospital for the interim crisis, where the patient may find himself on an acute care ward, we do not have an information system that does that kind of tracking.

As I indicated in my response to Mr. Callahan's question, where one is dealing with conflicting goods, one of the great conflicting goods we are dealing with here is the protection of personal privacy and the degree to which you can and should maintain a central information system that alerts out and tracks a patient as an individual as opposed to tracking a problem for purposes of planning of resources, which was the other purpose Mr. Archer referred to.

We have a pilot study that is now going on, I believe it is in Scarborough?

Ms. Macfarlane: About to begin.

Dr. Barkin: About to begin in Scarborough, in which we are going to test our ability to track that and hopefully, with very careful monitoring, not run afoul of our primary obligation, which is to protect the personal privacy of that patient as that patient has interim contacts with the health system.

That explains my answer: Yes, we are making progress; no, we are not anywhere close to developing the kind of thing Mr. Archer outlines. The likely way that we will track it for purposes of system-wide planning, not only for mental health purposes but for the entire health system, to understand where the burden of illness is and where the movement is, is not likely to be accomplished within the information available to us in the province until such time as the province is reregistered in its overall central health insurance system. We did announce that process several months ago in the entire redevelopment of the health insurance division in Kingston.

Mr. Adams: An analogy would be a high school and the graduating students when you were trying to assess the worth of the high school and you did not know what happened to the students.

Dr. Barkin: Exactly.

Mr. Adams: In the case of that, high schools track students in all sorts of ways, but I suppose there is a very general way of doing it which does not require you to know the name of the person concerned and so on. "So many per cent of our students went to community college, and of them, so many did so and so." That sort of information should be available.

Dr. Barkin: Yes, and that is very important information. Some of that information on health problems we already have, but only on a generic basis, that is, not individual by individual. We are able now to track the incidence and prevalence of readmission for psychiatric services by region. We can in fact track the variations and probabilities of certain interventions by regions in the province, not only on the mental health side but for a variety of illnesses, and sometimes certain flags go up as a result of that tracking.

I can give you an example that is a lot easier to contemplate than some of the complexities in the mental health area. For example, we can tell you today that if you live in eastern Ontario, the probability of your having a triple coronary artery bypass is about four or five times that if you live in

southwestern Ontario. I cannot tell you whether it is too high in eastern or too low in southwestern, but at least it raises the flag for us that there is a certain disparity. In quality assurance processes, the first flag you need to have raised is that there is a certain variation in outcome in a different region. That does not mean it is better or worse, but at least you now know you have to ask some questions.

That is exactly, I think, the thing that Mr. Archer is getting to: That if one is going to monitor the effectiveness of not necessarily the institution but the comprehensive system that is available to the patient, one ought to be able to determine the rate of reinstitutionalization, region by region and institution by institution. One ought to be able to compare the length of stay in large numbers; again, not patient by patient but by large numbers. We probably will get close to the point where we can do those kinds of things, which is the reason for my first answer. Yes, we are getting close.

Mr. Adams: It has profound management implications. In your presentation at the beginning of the day, in this context you mentioned the forensic patients and the Lieutenant Governor's warrants. I was impressed to hear the low level of failure, if that is the right word, in the Lieutenant Governor's warrant system, and the comparison between it and recidivism, if that is the word you used, in the correctional institution, for example. I wondered if you would care to elaborate on that?

Dr. Barkin: What I will do is ask Dianne, who heads that interministerial forensic committee, to comment on that, because I think she is much closer to the details than I am.

Ms. Macfarlane: You have it right. I do not know how you want me to elaborate.

Mr. Adams: I wanted you to do it for the record, to be honest.

Ms. Macfarlane: I see. The recidivism rate among LGW patients is relatively low. When it does happen it makes the press in a very substantial, significant way; but if you compare it to the recidivism rate, for example, of parolees living in the community in some kind of supervised, structured way, it would be much higher for correctional inmates and parolees.

Mr. Adams: And the Lieutenant Governor's warrant patients proceed through the system from high security, medium security, a gradual—

Ms. Macfarlane: Yes. Release program.

Mr. Adams: And if you could, just for the record—

Ms. Macfarlane: Most Lieutenant Governor's warrant patients begin their warrant careers in the Oak Ridge division of Penetanguishene Mental Health Centre, which is the only maximum-secure psychiatric hospital in the province. When they are clinically stabilized and do not require that level of security, they are usually transferred from there to a medium-secure unit in another psychiatric hospital in the province.

As that process continues and the condition improves further, they are transferred to an ordinary regional psychiatric hospital with increasing privileges in the community until the point at which they are living and working in the community, at which point the board considers the question of vacating the warrant. That will take from as little as two or three years to more likely eight, 10 or 12 years.

Mr. Adams: And there is treatment at each of those?

Ms. Macfarlane: Yes, ongoing treatment. They are patients who were found not guilty by reason of insanity. They are in the health care system, not the correctional system.

Mr. Chairman: Mrs. Cunningham had some questions. I do not know whether it was on this topic, but—

Mrs. Cunningham: It is.

Mr. Chairman: I am going to propose that we leave the community mental health issue for another day. It is getting fairly late and I will be making a proposal to the committee that we visit North Bay facilities. We have times, plane schedules and so forth all arranged. We might want to ask some questions of Dr. Barkin after that visit as well. That will place less restraint on you, so can we just deal with any topic we have dealt with until now, including the inadequate information systems, and leave community mental health to another day? Does that meet with the agreement of the committee?

I am sorry if there are some staff who may have been sitting around waiting for that. I apologize. I always think health is a little like education: As all of us have been more or less both physically and mentally ill at some time in our lives, just as all of us have been in the school system, every one of us is an expert in some way in the field and therefore tends to be very interested in the subject. Sometimes it drags on a little bit longer than we think.

1620

Mrs. Cunningham: I think probably the introduction by Dr. Barkin has led to these additional questions and the interest the committee members have shown.

Mr. Chairman: And some of the changes he has been introducing, to his credit.

Mrs. Cunningham: Yes, and the Lieutenant Governor's warrant. But as it has been raised, my questions follow right along from Mr. Adams's, really, and they relate back to the report you referred to, the one I was so interested in when I was first elected.

Sadly, the court case is now public. This is just for the committee members. Yesterday it became public in London. My absolute disappointment is with the press. I did not know what happened. I knew that somebody was hurt, left for dead, and I questioned whether they should have been; really, anyone would have, under the circumstances. But the whole detail of the case was printed up in the London Free Press. It is so sad, because no one would have guessed what that little girl, whom everyone knows in her school, went through. Everyone thought being beaten was bad enough, but all of the other details were written. I am phoning the editor. I really think it is disgusting. I had no idea myself, yet I know the family. I had no idea what happened. These are the kinds of things we all face in our lives, and it is just awful.

I just wanted to say that I really noticed a tremendous difference in that hospital from the first time I ever visited, basically just out of interest, seven or eight years ago. At least in my opinion it is better. It is

nice to see us moving in that direction. One always wants it to be really wonderful, and as we grow older and face the problems of our own families and teenagers, one would go back to look at the real challenges of a patient in one of these medium-secure units.

As I looked there today and listened to the staff talk to us, I wondered, under the circumstances, how much real rehabilitation there is. I am now talking about the 16-bed unit. There may be no one in there on a Lieutenant Governor's warrant. I am not sure.

Ms. Macfarlane: One.

Mrs. Cunningham: Is there one? My remarks are not really directed at Queen Street, but at two other facilities I have visited. I think the challenge must be just tremendous to do rehabilitation, even under the improved circumstances that personally I have noticed.

In looking at this report, and now putting my political hat on, everybody wants everything to happen at once. Encon did come up with some 15 recommendations, the last six of which I think you mentioned were being implemented. Am I right on that? I think the first nine are almost as important. I am just wondering where we are on that.

Dr. Barkin: I have responded to the last six because those were specifically directed at the Ministry of Health. The others are being addressed because they require certain interministerial things, and there is an interministerial group that has been asked to address the first nine. I did not mean to imply that we were not doing those. In fact, the entire Encon report is being addressed. Dianne, who is part of that group, can tell you specifically what is going on and what state they are in at this moment in time.

Ms. Macfarlane: The recommendations were broken down into two types. One had to do with systems types of issues, having to do with planning and co-ordinating services for this particular population. Those recommendations have become the mandate of an interministerial steering committee that Dr. Barkin referred to in his opening comments.

Reporting to that is a working group that has a very tight six- or seven-month time frame in which to produce a report for the interministerial steering committee, the main issue being to look at recommending an appropriate ongoing mechanism for co-ordination of the various parts of the forensic service system. It has been an issue of interest for some time, so that particular vehicle is looking at the first two or three recommendations. There are only 11 recommendations in Encon, not 17.

Mrs. Cunningham: Right.

Ms. Macfarlane: I think the recommendations have been reviewed and addressed by those two caucuses.

Mrs. Cunningham: Of course, I am anxious to see that report. It seems to me that the report the committee was going to do should have been released by now. It was started in September, and I think it had a time frame of five months or so.

Mrs. Cunningham: I am anxious, of course, to see that report. It seems to me that the report the committee was going to do should have been

released by now. It was started in September and I think it had a time frame of five months or something.

Mr. Danson: Perhaps you are referring to my branch's responsibility for implementing the last six recommendations—

Mrs. Cunningham: Okay.

Mr. Danson: —which have more to do with the policies and the guidelines. In fact, we have hired one staff person who is doing nothing else but looking at the Encon study.

Up to now, we have looked at all of the warrants that have been issued in the province. What we are trying to do is to bring some consistency to the wording of those warrants, so that the interpretation that is left to the discretion of the administrator—As you know, within the warrant certain privilege levels can be agreed to by the treatment teams, so the patient then enjoys, say, a privilege level in the community. That is at the discretion of every administrator who operates one of these medium-secure units.

We have looked at all of those warrants. We are working closely with the Lieutenant Governor's Board of Review in establishing some common wording so that the interpretation will be consistent across the province.

What we have found a little is that some of the wording is different from warrant to warrant, even though it is probably implied that the board wishes that patient or those patients to have similar privilege levels. It is left open to interpretation in a lot of cases, and of course that is a weakness in the system.

One of the other things we are doing as well is we that have had Dr. John Bradford, who is a noted forensic psychiatrist from the Royal Ottawa hospital, going around and looking at some of the patients who are on these warrants and assessing them clinically to see whether the privilege levels they are being allowed actually should be allowed when you relate it to their clinical condition.

Dr. McCullough, who Dr. Barkin referred to, is also coming over to Canada several times this year to advise us and assist us in setting up a process within the facilities. He will be coming to St. Thomas, incidentally, to have a look at that secure unit again and give us his advice on the secure measures, if there are any, that can be taken to improve that situation.

We are also setting up a management information system where we will be able to track all of these patients. At the moment, the system is operated almost in two places, in the ministry and in the Lieutenant Governor's Board of Review. What we are doing is working with them again to establish a system where we will know precisely where every person who has gone through that system is at any one time.

Also, we are working with the Ministry of Correctional Services and the Lieutenant Governor's Board of Review to implement a bed registry system, which will help us identify where there are spaces available, so that when the Lieutenant Governor's Board of Review decides where to send a patient, because that is its option, it will know where beds are available within our medium-secure system.

Mrs. Cunningham: I suppose you are aware of the observations about the medium-secure units that we saw today, that none of them was purpose-built.

Mr. Danson: Right.

Mrs. Cunningham: Therefore, we are already stuck with some facilities that were never meant to serve the objectives of the program anyway, and there are waiting lists for admission and readmission both at Oak Ridge and the medium-secure units, so the facility thing is a problem.

Mr. Danson: It is, and one of the things we are doing very soon, within the next month probably, is opening an 18-bed secure unit in the Kingston Psychiatric Hospital. We are hoping that will alleviate some of the problems, but you are right: There are waiting lists and there are people in the jail system awaiting psychiatric assessments and that sort of thing.

Mrs. Cunningham: I guess really what I would plead for here, and I may not be right, because it is not an area I know well, is that when you take a look at people who have committed murder—in the instance of that little girl in St. Thomas, the person had committed three murders—it is really hard for the public to believe that somebody like that is out and not checking back in from time to time, as did come out in the media.

I have explained it in my office that every once in a while you get a mistake. What I never want to have to do is say, "Yes, well, it happens," more than just once kind of thing. We all trust that as we are trying to experiment and make better lives for people, we will get the odd mistake. I hope that is all that was.

But when I looked at a couple of the rehabilitation facilities I have had the privilege to see—and I know it is a privilege, Dr. Barkin; you are quite right. Let's hope that most people do not see those kinds of facilities unless they are family members. It is a very personal thing we were allowed to witness today.

1630

I would like to say that I hope there would be some kind of vision around rehabilitation, especially when so many of those people are still so young. Not to be outside more, in a setting where they could play ball—I think families would feel so much better, even travelling distances. It talks in this report about being close to home. If one of those people were my family member, I would travel almost anywhere to know that on a day-to-day basis he would be in a setting where he could work with his hands and be in the country where there was a farm. Maybe I am all wet and maybe you have already tried it and maybe in the 1950s that is what everybody did, and so you have come back in again. Luckily, I do not remember those things.

Am I right? Is that something you are looking at, if they can be rehabilitated so that they can be out? Obviously, a lot of them are and are succeeding again. I think the family suffers as much or more than those people themselves. To visit your family member—no wonder they do not have visitors; that is what I say. It is so depressing. If there were programs for them to go outside more—does everybody say this or is this something you are thinking about? Can I go back and say the Ministry of Health agrees with me, that there is not the money but there might be? What do I say about this or is it just crazy?

Dr. Barkin: It is definitely not crazy; let me tell you that.

Mrs. Cunningham: Is it a wishful dream?

Dr. Barkin: The first secure area, the one Ms. Macfarlane referred to, is in the midst of having a significant recreational facility constructed.

Mrs. Cunningham: This is the one in Brockville?

Dr. Barkin: No, this is the one up in Oak Ridge. I mentioned the extent and scope of that earlier on in my comments. It is in the middle of construction. It should be completed in how long?

Mr. Danson: I would say two years. It is a big recreational facility.

Dr. Barkin: It is a major recreational facility for that area. Because that is the high security one, having recreation on site within the facility is probably most important at that one. For the other facilities, depending on the instructions in the Lieutenant Governor's warrant, once the individual moves down or up the scale, depending on what your perspective is, the idea of movement under supervision from the facility to outside of a facility, into a test of the community, becomes part of that rehabilitation program.

The issue you have raised, the predictability with 100 per cent accuracy of what an individual's behaviour will be, even after a fairly long and stable track record, I think is a valid question. I guess I could also say that of the nine million people in Ontario, I am not sure I could have that good a track record on predictability, even if I knew them all well, intimately and watched them behave, because there are times when people do behave erratically, unpredictably and give very little indication that they would behave like that. I wish we could say we had a predictability index that was 100 per cent accurate, but we do not.

Mrs. Cunningham: It is very hard on people who are faced with families where someone has committed murder and is not insane and then he is away for many years.

Dr. Barkin: I agree.

Mrs. Cunningham: Then when you get somebody who has done it three times, it is a hard one to explain to the public.

Dr. Barkin: Yes.

Mrs. Cunningham: I appreciate what I had an opportunity to see today. Thank you.

Mr. Chairman: Mr. Adams, you get the last question.

Mr. Adams: Sure; oh good. Just following from the last one, it seems to me that with regard to the idea that it might well be a mistake—I do not know about the particular case that was being talked about—any human system has a margin of error, which is not exactly the same thing as a mistake.

With regard to the psychiatric hospitals, we obviously were there a very short period of time. We have carefully read the material we were provided. It gives us a very particular focus. This is the standing committee on public accounts. We only heard in passing about the research that is being done at the hospitals.

It seems to me, again just taking them as a special group of hospitals,

that the research is particularly important because it is one of the ways in which the people in the hospital, the staff and the patients, can think of themselves as not having simply a holding function, but that there is some future and so on: the lithium research at Hamilton and this research into schizophrenia and the gene on the fourth chromosome stuff at the other hospital. I wonder if just briefly one of you could talk about research in the hospitals, and in particular, bring us up to date on the schizophrenia research.

Dr. Barkin: Dianne Macfarlane just handed that one to me. It is hard to know where to begin on the research side. I started at the beginning to indicate that one of the keys for the hospitals, which by themselves do not maintain major research laboratories, was their affiliation with academic health science centres where there was the ability for interaction and even cross-participation in various levels of research. Let me try to summarize, starting at the molecular level out to the clinical level, and I will try to explain. If I get too technical, please stop me, because I sometimes forget; I think I am back in medical school.

At the molecular level, what the ministry funded was problems in three particular areas: In Toronto at the Clarke Institute of Psychiatry where it is not yet up and running but is about to come up and running, and in Hamilton and Kingston. It is probably one of the most advanced tools of probing brain activity that is available probably anywhere in the world. This is the positive electron transmission scanner, which not only can give you a picture of what is going on as you would see with a computerized axial tomography scan or even a magnetic resonance imaging device, but actually tells you what the levels of functioning of different portions of the brain are through the use of the X-ray.

This will probably be one of the most valuable research tools available in the whole area of mental health and brain function. There is considerable cross-fertilization at that level between those researchers and the psychiatric facilities that have developed affiliations with those health science centres.

There is a vast array of research being done that affects mental health—the bulk of it at the molecular level based at the Clarke Institute, but it is happening at a variety of our health science centres across the province—that is what I describe as at the molecular level; that is, what happens inside a cell or inside a gene, and you referred to that. Probably one of the best research areas in that area is right at the Mount Sinai Research Institute.

As you come up the level of research to the centres that are now doing research on brain dysfunction and Alzheimer's disease, we have those happening again at the cellular level: what is happening inside the cell, at the gross brain function level. There are brain registries at Sunnybrook and at the Tanz centre at the University of Toronto. I am aware of one in Hamilton, which has the ability to analyse certain anatomical abnormalities and correlate them.

Let me get to the other extreme. I do not want to describe all the research in mental health in the province because I could not. I do not have it at my fingertips, but we could give you, if you want, a fairly good rundown.

The other end of the spectrum is clinical research. Here the psychiatric hospital system is absolutely vital. As you move from bench to bedside, eventually therapy must be validated at the bedside. Dealing with different

forms of therapy, combinations of drugs, rates of recidivism, testing the effect of drugs on one's ability to cope, one's ability to be discharged and to cope in a functioning environment as opposed to drugs that totally sedate: Those are clinical assessments and those require the judgement of clinical psychiatry. Psychiatric hospitals indeed play a large role in that, as do their linkages out in the community.

To summarize what I have said, the linkage from the psychiatric hospital on the research side must extend into the health science centre. I have described some of those linkages and some of the tools that we have already put in place for that purpose. Then the linkage must extend out into the community in order to assess the effectiveness of new forms of therapy and new approaches and develop some kind of clinical guidelines, which they then reassess and spread among their colleagues and say: "This drug and this combination is better for this. If you use this drug in this high a dose, you will get a side-effect." That is part of the self-educating process in establishing standards.

Research, and I am glad you raised the issue, may well be, in this area, as important as anything else we do. I think you had a chance to see the fact that there are too many people for whom the existing armamentarium of medicine or the social support system simply has nothing to offer as yet.

Mr. Adams: It seems to me it is directly related to value for money, because ideally we are talking here about curing people, and this breakthrough, if that is the right expression, in starting to establish the genetic side of schizophrenia, or of some forms of schizophrenia, has had a great effect on attitude. We have been discussing the importance of attitude in this area of health care in the province. It is an intangible thing, but I think it is of vital importance in this case. If there could be a change of attitude alone, things would be much better. I think some of the research that is being done is very important in that respect.

Dr. Barkin: I think the key is that it gives hope to the people who are affected.

Mr. Adams: That is correct.

Dr. Barkin: I should make one comment on Mrs. Cunningham's statement about how things have changed at St. Thomas. Without revealing my own age, I did my training at the original Queen Street hospital a lot of years ago.

Mrs. Cunningham: In the old building?

Dr. Barkin: In the old building. In fact, I served as a summer intern and actually worked and lived in the residence there for 10 months, so I have a very intimate experience, if you like, of what Queen Street was like compared to now. Although you have seen Queen Street in 1989; I can look back at Queen Street in the 1950s and 1960s, and it is heartening to know we are making progress. Attitudes have changed. The physical facility is immensely different. The attitude to patients is different. That is not to say we do not have a long way to go, but it is not an area that has sort of been swept aside. Progress is being made and one sees it in the fullness of time. It is quite dramatic.

Mr. Chairman: Thank you. I would like to thank Dr. Barkin et alia, as we would say in academic circles—and company—for appearing today. We were not able to get around to dealing with my particular favourite area of

interest, which is the community mental health area. I am sure we are going to have a lot of questions on that, so it seems more appropriate to deal with it on another occasion.

For the sake of the members of the committee, we are going to be contacting the ministry to see whether it would be possible for us to visit the facilities in North Bay on Thursday. That may not be possible, but just in terms of your schedules, if we did, we would be flying on a one o'clock flight on Thursday and returning on a 7:20 flight. It takes approximately an hour. That would get us back into Toronto at around 8:20 p.m.

Mr. Charlton: Which day are you talking about?

Mr. Chairman: Thursday. You may want to think about that in case there is some way of easily rearranging your schedule or at least of not accepting any engagements for Thursday evening, if your calendar is not already full.

Thank you very much. It is an area where we will watch your progress. We see that some progress has been made already on the concerns of the committee and the Provincial Auditor, and we thank you for your co-operation.

The committee is adjourned until Monday at 2 p.m.

The committee adjourned at 4:44 p.m.

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TUESDAY, APRIL 18, 1989



STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Charlton, Brian A. (Hamilton Mountain NDP) for Miss Martel

Lupusella, Tony (Dovercourt L) for Ms. Collins

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Drummond, Alison, Research Officer, Legislative Research Service

Witnesses:

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Barnes, Peter H., Deputy Minister

Kirk, Allan, Manager, General Welfare Assistance Program Development Unit,
Family Services and Income Maintenance Division

Woollard, Mark, Manager, Policy Development Section, Family Services and
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LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON PUBLIC ACCOUNTS

Tuesday, April 18, 1989

The committee met at 10:21 a.m. in committee room 1.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988
MINISTRY OF COMMUNITY AND SOCIAL SERVICES

The Acting Chairman (Mr. Charlton): We will start out the session this morning by asking the deputy minister, Mr. Barnes, to introduce his colleagues and then perhaps to make an opening statement. Then we will ask the Provincial Auditor's office to comment and we can proceed into questions from the committee. Mr. Barnes, perhaps you can introduce your colleagues.

Mr. Barnes: By all means. On my far left is Mark Woollard. He is manager of policy development in our income maintenance branch. Immediately to my left is Allan Kirk, who is manager of program development for general welfare assistance, and I am Peter Barnes. Do you want me to make the opening statement now?

The Acting Chairman: Yes, proceed.

Mr. Barnes: Okay, fine. I am going to speak from notes.

I want to start off by saying that basically we do not have enormous disagreement with the comments made by the Provincial Auditor on this particular subject. We found them valuable and we have taken action in a number of cases based on some of their findings.

Before saying anything else, I also want to say that we were pleased that the Provincial Auditor's report, in reviewing our financial controls, which was done at the same time as looking at the other aspects, in fact found them in order and that we were paying the appropriate sums of money on the basis of the claims made to us by municipalities. I do not think the Provincial Auditor has any issues around the financial control side.

Really, the accent is very much on the monitoring and our relationships in terms of monitoring with the municipalities. I think that generally sums up the tenor of the comments made by the Provincial Auditor and I would like to say a few words about that.

Before doing that, I would like to set the stage in terms of the checks and balances that are already built into the system. I think this is important, because obviously it is within that context that we carry out our monitoring.

First of all, in terms of the legislation, there are only two other provinces that have a two-tier system of income maintenance, one run by the province and the other run by municipalities. The other two provinces are Manitoba and Nova Scotia.

In Manitoba and Nova Scotia, the rates themselves are set by the municipalities, whereas in this province we set the rates. We mandatorily set the rates. So you have a far more delegated and decentralized and less

controlled system in that sense in Manitoba and Nova Scotia. I do not know how many, but there are probably at least 22 sets of rates in Manitoba, I should think; for all I know, more.

Mr. Kirk: There can be close to 200.

Mr. Barnes: A lot more—200. It is a very different situation in terms of where the province, the legislation and the development of the process is coming from.

In terms of municipal stake and local political accountability, and this is relevant to our monitoring, the municipalities have a 20 per cent share in the program funds—in other words, they pay 20 per cent of the total general welfare assistance costs—and they pay 50 per cent of the administration costs. As I do not have to tell you, municipal administrators are responsible to their local politicians, who are of course publicly accountable.

We have the Social Assistance Review Board, which I am sure you are familiar with, which reviews appeals from all our recipients when they do not feel that they have been properly paid. We have legal clinics, which are very active these days and over the last five or six years have become more active and accepted by staff and municipalities alike in terms of appropriate role, not to mention the many advocacy groups.

The clients themselves have many people speaking on their behalf. I think many of you have contacts, probably more than in any other area, in terms of income maintenance and constituents coming in, raising questions, asking questions. We try to provide you with the best answers that we can.

Of course, the other major piece of monitoring that will shortly be taking place over the municipalities is when the Freedom of Information and Protection of Privacy Act is extended to municipalities in 1990, which means that all information pertaining to how they do business in the area of income maintenance, aside from confidential information around individuals, will become public. That will make them, if I can put it that way, even more accountable.

I would like to say something about the ministry as well, which explains how we go about our relationships with the municipalities, not only in this area but generally.

We are a decentralized ministry. By that, I mean 94 per cent of the ministry works outside head office. We delegate responsibility for the delivery of all programs down to the area level. We have four regions and we have 13 areas. The responsibility for managing programs, delivering the programs and ensuring that the money is properly spent lies at the area level and is delegated in the context of our trying to be sensitive to differing needs of differing communities.

I think we found out in the past, to our cost, that what works in Toronto does not necessarily work in Sudbury, Moosonee, Thunder Bay, Windsor or Kingston. The whole object of our ministry, and we call ourselves a community ministry, is to be responsive to the local community and to try, within appropriate administrative controls, to respond to local needs in a sensitive and flexible manner, so that the community can do the best it can with the money we make available to it. The area office, therefore, is the focal point for communication with the municipalities.

The municipalities have accepted responsibility for delivering the

general welfare assistance program. Wherever possible, we have chosen the appropriate level of government which will ensure consistent delivery of a provincially designed program. For instance, we feel it is preferable to have county delivery in place, as opposed to individual small municipalities within the county providing service to clients on a part-time basis. For this reason, we are currently encouraging consolidation in the last three remaining counties where such consolidation does not already exist.

Another point to make is that general welfare is a mandated program, and as such, service must be provided to any person who applies as a person in need. Over the past number of years, we have experienced significant increases in case load. We can give you statistics on that if you are interested. The numbers on GWA and family benefits allowance rose very significantly in 1982, and they have not come down since that time. There are lots of reasons, actual and some surmised, for that.

We have also over the last number of years implemented a lot of changes to the program. These changes are targeted. In other words, when there is a change to the program, the desire is to try to ensure that those in need get service and that there are not loopholes and opportunities for people to move in and get money when perhaps they are not as deserving as others. What this has resulted in is a very, very complex program with masses of regulations, such as exclusionary, targeted and so on.

The combination of increased workload or case loads and increasing complexity has meant that we have had to make decisions around where we allocate the staff we have. We seriously do. One always has to do with resources, but the pressures put on us over the last number of years, despite increases in staff—and we have had 200 extra staff in the income maintenance area in the last two years—have forced us to actually decide where we should concentrate our attention. Our decisions have been inevitably to concentrate our staffing increases at the front-line level where the impact would be felt on service delivery.

By mandate, by law we have to provide that service. We would rather our case loads were somewhat lower than they are now, but we have been concentrating, as I say, on the front line. At the municipal level, we have approximately 1,200 workers delivering the GWA program. Area managers who have the responsibility for negotiating cost-of-administration budgets with the municipalities try, within available finances, to allow staffing levels to change in relation to case-load changes.

Then of course we have Transitions, the report from the Social Assistance Review Committee, which makes recommendations aimed at simplifying the program, aimed at a single piece of legislation and also recommends that there be municipal delivery where provincial standards should be met. In other words, there would be less discretion than exists now—special assistance, special needs—but there would be certain standards to be met. They do recommend that if those standards are met, there should be municipal delivery.

If I could move on now to the specific points raised by the Provincial Auditor, I would like to make just a few comments on those. In terms of monitoring at the area office level, the main functions of a program review officer include examination and financial reconciliation of all subsidy claims, general welfare assistance, costs of administration and costs of staff training; regular and extensive case file reviews, including home visit verification, reviews of selected administrative procedures and systems in GWA accounts payable, etc., and consultation with municipalities with respect to program and administrative concerns.

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Program review officers are also required to provide training of municipal and Indian band administrative staff as required, and review of related programs, such as purchase of counselling services, homemakers' and nurses' services and municipal employment programs, and a review of the family benefits programs.

An additional three review officers have been hired in Metropolitan Toronto, two of whom have concentrated on the GWA program since the Provincial Auditor's report, in which he pointed out that we only had one at that time.

A base review is commencing in the income maintenance program; this study will include the activities of the program review officer. Clearly, we are very conscious of the potential that the Social Assistance Review Committee has for change, so we are trying to balance doing things now to improve while waiting for what the government decides to do in the area of the SARC review.

A recent review of the area offices indicated that program reviews and financial verification of claims were considered paramount, and that with one exception, due to staffing problems, these were current. The exception is Mississauga, where we have had a number of people absent for a variety of reasons. This review also indicated that job specifications for review officers are now current. This is what we have done since we have heard; we have reviewed. This is as of last week.

Program review officers report directly to program supervisors, income maintenance, who are placed in each area office and provide expertise and guidance in the program to municipalities and Indian bands. As well, program supervisors provide the basic link between head office and the municipalities in terms of technicalities and figures.

In the area of training, it should be noted that in addition to the program review officers' involvement, special training is provided to municipalities around new initiatives, spouse-in-the-house being a good example, where we had a major training program. As well, funding is provided to the Ontario Municipal Social Services Association so it can serve its members by identifying and meeting training needs.

We deal with more specifics on the specific first point raised, on monitoring the head office level, but I think that provides a good current statement of where we are now.

Further to monitoring at the head office level, I think this is a question of opinion and to some extent attitude. In a decentralized ministry, we see the area office being the responsibility centre for dealings with municipalities and Indian bands, and the system is supported by a regional structure which allows for recognition of regional distinctions, which must be considered when delivering complex programs. As I was saying earlier on, the whole concept of the ministry is decentralization responding to local need.

Allowance calculations are done for the most part by computer systems operated by the province. This ensures consistency of payments across the province. The question then becomes one of equal treatment of clients across the province, and in order to ensure that a link between area officers and head office exists on a continuing basis, head office staff meet on a regular basis with the program supervisors of income maintenance, who are responsible

for the program at the area level. As well, program supervisors communicate with head office in writing to request clarification or interpretation of legislation or policies.

Computer conferencing is now in place to ensure that an ongoing process of information-sharing exists between head office and the area offices; we now have all area offices on a computer conferencing system. Having said that, we are not satisfied with the linkages. I think the Provincial Auditor was correct in pointing out that the linkages between head office and the field are not all that always might be desired.

This is one of the problems we have in our decentralized ministry: how to maintain consistent, good linkages between area offices, regional offices and head office; and how to, at the same time, give sufficient flexibility for people to be seen to be operating and taking decisions at the local level.

It is getting that level of consistency which is acceptable and necessary for good administration while allowing a level of flexibility that allows for good local decision-making. We are always playing with that. It is a movable feast. It depends on people. It depends on information; we do not have as much information as we would like, frequently. We are learning a lot about it and we are getting better.

We are probably one of the most decentralized ministries in terms of decision-taking within the ministry. We were one of the first to decentralize in quite this fashion and we are still learning 10 years later. I am not making excuses. It is difficult, but we refuse to submit to the frequent cry of: "We decentralized to centralize and then we centralized to decentralize." We are determined to make decentralization work.

In terms of the inadequate review of administration costs, which I think was the third point raised by the Provincial Auditor, we consider that the ministry exercises effective control of the costs of GWA administration that were recognized for subsidy purposes. This is done through the same regional area allocation process as is used for all social services.

We believe this has proved to be an effective method of recognizing unique needs of communities and municipalities within the context of the overall amounts available. I am not pretending that it is the same in each municipality, nor is the management the same in each municipality, nor are the capabilities the same in each municipality, nor the demands, so we try to respond to that in terms of staffing.

The only other point I should add to that is that it should be recognized that this ministry only exercises a financial stewardship role in this area, but it is a responsible one. The province does not make any payment for general welfare assistance administration: 50 per cent is paid for by the municipalities, 50 per cent by the federal government. Federal government money goes into the consolidated revenue fund and therefore comes in through our estimates, so we treat it as our money; but I am just making the point that it is municipal-federal money.

Frequently, knowing that we do not put our own money into it, a great frustration to the municipalities is the fact that we are very strict on the amount of staff that they do employ on the whole. They sometimes have difficulty understanding that. I do not think our relationships with the federal government are a cause for concern for the federal government in this area.

In terms of needing better co-ordination of audit functions, I would be the last one to deny that that is a necessity generally. One of the problems we have in this area is that the Canada assistance plan requirements include proof of needs-testing at an individual level and availability of records to substantiate claims for cost-sharing. Therefore, auditors from CAP as well as ourselves and the Provincial Auditor and external auditors complete reviews at the municipal level to ensure that these are in place.

We are negotiating with the Canada assistance plan a move towards a more strategic approach, which we hope will streamline our audit requirements. At a very general level, we think that there is a lot of money to be saved administration-wise and time-wise and harassment-wise if we could go to a more statistical approach in terms of how we in fact look at claims and so forth. It is a form of statistical process control, statistical bases of identifying those most likely in need that we can start using.

We would like to do it. There is a very large apparatus in Ottawa. A lot of them would like to do it. The issue is how you can get it going without threatening the integrity of the system, but I think we are making progress in that direction. If that happens, the net effect will be a reduction in the external audit presence in municipalities. I do not expect it to happen within the next 12 months, however.

The other problem we have, as I said earlier on, is that the programs are very, very complex, and we have worked with the municipal audit bureau; but then we end up fundamentally putting our own staff in to work with the municipal audit bureau. There is no way that they can have the level of understanding of the complexities of the program that they would have if they were working on it on a continuing basis. This is a problem. I accept it. I do not have any easy answers.

Overpayments: Yes, there are overpayments. The account figure identified by the auditor was about \$18 million. The program review officers do have a responsibility to ensure that good practices are in place at the municipal level to ensure provincial overpayments to clients.

The total amount of overpayments owed to municipalities is not for this year. It is in fact a cumulative figure which has steadily increased over the years, since municipalities have never been permitted to write off overpayments which are uncollectable: a deceased client, transfer of client to family benefits allowance and so on.

This is due to the fact that we have never been clear around the need to obtain federal approval for write-off. We had understood that we required federal proof for write-off, though in fact when we examine the legislation there is no such statement that requires that. So we went to the federal government and we said we would like to write this off, because it is silly to just allow it to increase year by year.

We have not been able to get a response from them to this, so in the absence of legislation, we are going ahead now with a policy which will provide municipalities with guidelines as to how and when they may write off any overpayment that is uncollectable.

I think the Provincial Auditor's comments around the lines to build up are correct. I do not think it was due to our laxity; it was purely due to trying to obtain an understanding with the federal government as to how it would react if we went ahead with this. We are now going ahead regardless.

In terms of noncompliance with regulations on the issue of the need to have municipalities agree in writing to have a policy in place on overpayment prevention and recovery, the ministry has now put in place a process to obtain such agreements. To date, we have received a response from 121 municipalities. That is not a lot out of 300, but we are covering about 85 per cent of the population with those responses, perhaps 90 per cent.

The final point made was better controls over general welfare assistance drug benefits. Subsequent to the Provincial Auditor's report, we sent out a directive, dated October 20, 1988, to municipalities, asking them to review local practices and ensure that effective security and control distribution on blank drug benefit cards is in place. Our staff is continuing to meet with staff of the Ontario drug benefit program around implementation of a system to verify eligibility of persons receiving drug benefits under GWA.

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We are currently in the process of converting municipal administrations to the comprehensive income maintenance system. That is already shared in our own offices with the Ontario drug benefit branch, and it is expected that when we complete municipal conversion over the course of the next 12 months, eligibility checking will be in place for 90 per cent of the recipients of GWA.

That ends my opening statement. I hope you can sense from it that we found the auditor's comments useful. We have reacted to those that were clearly omission on our part or things to be done. I think we will always have and have had for some time a slight degree of difference around the value, and we have it in our own ministry, of centralized control versus the appropriate level of decentralized authority in the context of consistency in decision-making.

As I say, I do not have any honest and straightforward guideline or perfect answers on that. It is something we are playing with all the time, and it does vary. Thank you very much.

The Acting Chairman: Thank you. Would the representative from the auditor's office like to make some comments?

Mr. Otterman: I would just say that Mr. Barnes gave a very complete overview of the environment in which GWA is delivered, including much of that environment which went beyond the focus of our audit. He also stated well the focus of our audit, which was the monitoring from the head office area of regional levels of the program delivery by the municipalities. He also mentioned some of the other factors there, such as the drug benefit situation.

I have no further comments at this point.

The Acting Chairman: Before I open it up to committee members for questions and discussion, I would like to try to divide the discussion into two parts.

First, I would like to try to deal with what is set out in your research briefing on page 3, which is the very local nature of the issues that have been discussed already, the questions around eligibility review, delivery of the programs in the municipalities by the municipal administrations, drug cards and so on.

The second part should be the more central questions of policy and

monitoring of local delivery. They are essentially set out on page 7 of the briefing notes. If we can keep that in mind and try to focus first on the local questions, it will be a little easier in terms of the flow.

Mr. Lupusella: My question actually is not really a question. It is just a concern I have, which I am sure was not touched upon in your presentation before this committee. It has to do with the divided jurisdiction between GWA and family benefits allowance. It has to do with the cost-effectiveness of the program and the issue of prevalent claims, which you did not touch on at all. Do you have any specific comment on the issue? Because of this discrepancy, I think we are faced with a certain number of prevalent cases, and I just wonder what kind of concern you have on that.

Mr. Barnes: That is a very broad question, and I actually did not touch on it, but I will talk about it now. It is not specifically raised under subsection 3(3), which is what I was trying to deal with.

Ontario has historically had a two-tier system, which distinguishes between those who are capable and expected and required to find a job and be in the process of finding a job in order to obtain assistance and those who, either for reasons of being sole-support mothers or handicapped, are not required to find a job.

Traditionally, outside of certain unorganized territories and Indian band areas, the GWA—finding the job—is deemed to be better run at the municipal level. This is historically going back a long time because of the linkage into local jobs, local knowledge, understanding of the local people, etc., whereas it was felt that the requirements and needs and the need for consistent treatment for the handicapped and the sole-support mothers was such that it was better that this was run by the province. This is very historical.

There are clearly problems associated with a two-tiered system because people transfer from one to another. Somebody on GWA may have made an application that he is permanently unemployable by reason of illness or handicap or whatever, and it is in the interests of the municipality to see him transferred to FBA because the municipality does not pay 20 per cent of FBA. The time and co-ordination that has taken have been a problem in the past. We are looking to our new systems, to joint intake to speed that up. At the point in time of the Thomson committee, we had integrated, I think, six or eight municipalities where the sole-support mothers were actually administered by the municipality, but not the handicapped.

The Thomson report refers to the need for one system. The philosophy behind his reference to the need for one system is as much a product of integration as it is around cost-effectiveness. In other words, the handicapped should not be treated any differently from any other members of society, except in the sense that they may need more or less support to find a job or to lead as reasonably normal a life as is possible.

What Thomson is suggesting in order for this to happen is that there be much less discretion at the municipal level and that there be certain qualification requirements before a municipality would in fact be asked or expected to administer the program. One of them, for example, is to provide services in French, but that is all in the context of the Thomson concept that the disabled fundamentally, ultimately, go on to a national disability insurance scheme and are not on welfare at all. You have a children's benefit that effectively removes children from welfare, and what you are dealing with on social assistance are people who are quite capable of going back to work. It is in that context.

If you are saying to me, would it be more cost-effective to run one system? I could answer yes. I do not know how much more. We have not saved a lot of money through integrating at the municipal level. What we have done is provide a better service. A sole-support mother has moved from GWA to FBA more quickly after the three-month waiting period.

Philosophically, I think there are points all over the range, depending on your spectrum and your point of view. There are people who think that all income maintenance should be delivered by the province for reasons of consistency and the varying capabilities at the municipal level. There are many other people who believe it should be delivered at the municipal level in the context of back-to-work, because that is where the jobs are.

I say to you that the logic in the Thomson report is one arrived at after much thought and consideration and one, I think, that strikes a good balance between the need for local understanding while removing as many of the bases for inequitable inconsistency as possible.

Mr. Lupusella: Am I correct to interpret that up to now you do not have a system within the system to control fraud of the two systems?

Mr. Barnes: What do you mean by "a system within the system"? We have people who spend an awful lot of time controlling fraud, working on fraud. There are eligibility review officers whose job it is to follow up, pay home visits and control the level of fraud.

If we think about fraud, let us compare ourselves with Quebec, which stopped all home visits in 1972, I think. Then about three years ago, it introduced what were called Boubou macoutes by the press to go and do home visits. They are estimated to have recovered something like \$150 million. We have never, ever stopped home visits. We continue to do home visits, we continually do home visits and our whole belief is that while we do not want to be seen to be the policeman, we believe the integrity of the program obviously lies in our ability to minimize levels of fraud.

Mr. Lupusella: You are talking about family benefits allowance?

Mr. Barnes: I am talking about GWA and family benefits.

Mr. Lupusella: GWA is the same?

Mr. Kirk: Both. A number of municipalities have eligibility review officers in place. Our legislation dictates that a home visit will be made when someone applies for general welfare assistance.

Mr. Lupusella: That is the pattern, upon the application of the individual?

Mr. Kirk: Within half a month of applying for general welfare assistance, a home visit must be made.

Mr. Lupusella: How many other visits do you have through the system?

Mr. Kirk: On general welfare?

Mr. Lupusella: Yes.

Mr. Kirk: It depends on the case. If it is an employable case, most

municipalities will want perhaps monthly contact in some cases. At least every three months they will contact the client, have personal contact with the client, to determine that he is in fact looking for work and that he is looking for any work that is available to him.

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For those cases who may well be transferring to the family benefits program and the need to seek employment is not as great, then the personal contact may be every six months, or in some cases, every year. For family benefits, we expect that annual home visits will be made.

Mr. Lupusella: On the issue of the free drug cards, at the moment the municipality has the discretion to issue the card. Am I correct—

Mr. Kirk: No. If someone is eligible for general welfare assistance, he is eligible for prescription drugs. They must be given a drug card.?

Mr. Lupusella: Automatically.

Mr. Kirk: Yes.

Mr. Lupusella: The province pays the cost of the card.

Mr. Kirk: Yes.

Mr. Lupusella: Why is the application not going directly to the province in relation to the drug card, rather than initiating the process with the application of welfare assistance, so at least the province is in control of the whole system?

Mr. Kirk: That would necessitate a double needs test because if someone applies for general welfare assistance, he is needs tested to determine his eligibility. If we were to ask them to then apply directly to the province for their drug benefits, we would have to have some verification in place that they were in fact eligible for that drug card. It simplifies the system and provides much better client service, I believe, if the client can obtain the drug card directly from the municipality—

Mr. Barnes: I would add that when we get on to a comprehensive system with municipalities and ourselves using the identical same systems, then it will be possible probably to streamline that sort of process, I guess.

Mr. Kirk: Yes.

Mr. Barnes: Obviously, there are questions that are going to have to be raised over coming years and consideration by the Legislature on the use of cards generally, as is happening in the United States in terms of general welfare assistance, family benefits allowance, drugs, hospital and so on. We do not know whether we will in fact start using cards of verification for qualification for those purposes to an extent. That is a real question for the future that is going to raise a lot of interesting issues.

Mrs. Fawcett: First of all, I would like to give you a compliment, Mr. Barnes, from Art Beaver, who is the federal welfare assistance co-ordinator for the Alderville band. He just happened to mention what sensitive, caring and competent persons you and the minister are. I just thought I would pass that on.

Mr. Barnes: Thank you.

Mrs. Fawcett: What I am wondering in this is, was there a comparison done—maybe this is more for the auditor—let's say, of the Toronto area and the rural areas as to fraudulent methods and so on? I know in my area, the calls I get to my office there, it is that they are being too diligent, that they are requesting the job search, that they are requesting all these things and the people cannot get the benefits they think they deserve.

I was just wondering, is it general across the province, or are there areas of abuse or just how does that work?

Mr. Otterman: Perhaps I can clarify and Dinkar Amrite could add anything to it. The focus was not to look for fraud in this case.

Mrs. Fawcett: Right.

Mr. Otterman: Our audit went to the level of the monitoring performed by the ministry eligibility review officers, so we did not look at case files across municipalities to determine the extent, or otherwise, of fraud. That would have to be a totally separate audit. However, I think our point is that the ministry eligibility review officers, from what we found in our sample of the municipalities we visited, did not seem to be performing very many reviews.

Mrs. Fawcett: I see.

Mr. Otterman: We felt that was perhaps not giving the ministry the assurance it should have that things were being performed—

Mrs. Fawcett: Certainly. I can understand that. It just seemed that within my own area they seem to be doing the job.

Mr. Otterman: Yes.

Mrs. Fawcett: Now, mind you, obviously I am not going to hear from people who are getting away with something, but it just seemed that certainly the home visits were being done and people were complaining that maybe they could not.

Mr. Otterman: I think the deputy perhaps could explain that a little better. I think he did indicate that municipalities are not homogeneous. You get variations in how effectively they deliver the program.

Mr. Barnes: I will want to say a few words in a second, but this goes right into the area of discretionary benefits that the municipalities can give, the tax base, the amount of money available for those discretionary benefits, and then where they are not discretionary, or mandatory, if there is less money, clearly there tends to be tighter control over what is going on. Would you like to comment on that one?

Mr. Kirk: Yes. When you compare the large municipalities with the small county units, as Northumberland is, or those counties where small municipalities are delivering the programs themselves, there are some differences. We have a very complex program. If you take Renfrew county, for instance, where we have 36 small municipalities each delivering its own program with a case load of perhaps one, two, maybe six in a year, it becomes very difficult for the clerk-treasurer, or the person who works in the office who is doing the welfare as well, to understand the program.

Therefore, we tend to be much more cautious. Those are the people who tend to pick up the phone and call the program or the officer or call the program supervisor and ask exactly what it is they should do. Again, as Mr. Barnes said, when it comes to the area of special needs, and those are some of the calls that I think your office will get, the budget is much more limited in the small areas compared to the large municipalities, so they become much more careful and are much more likely to say no or to think about it for a little longer, where the large municipality may have a policy in place to pay for some items.

Mrs. Fawcett: I know too in this job search request that they have to do, there are only so many jobs available and they have to keep going out to the same places and receiving the no answer. Then the recipients just say: "It's ridiculous. Why do I have to do that?" We keep saying, "Rules are rules." Our people seem to be doing a good job.

Mr. Barnes: The other thing I want to add here, and this is an important issue, is that our Metropolitan Toronto office cannot hope to match the bureaucracy that exists in Metro Toronto at the municipal level in terms of number of accountants, auditors themselves and so on and so forth.

The issue really is one of what discretion we should give, what accountability we should give to the municipalities and what we should expect of them or whether we should run it ourselves. Those are real issues we have to face up to. I think of Mr. Lupusella's question earlier on; I mean, there is duplication. Do we or do we not look at a municipality as a publicly accountable body and expect it to be as responsible as we expect ourselves to be? Presumably, we do.

To what extent do you double check and to what extent do you accept? Those are balances. To what extent should we do regular post-audit rather than continual review? I think those are questions we have to ask ourselves as we look at the administration of this program and try to make it as streamlined as possible.

The Acting Chairman: If I could interject before we move to the next questioner, I think there is a fine-line bit of confusion going on here in terms of this question of eligibility review. In fact, it has two levels. I think all of the questioning is useful, but your questions are pursuing questions of eligibility review that are conducted by the local municipality, the individual case-file eligibility review questions.

The auditor's comments on the questions of eligibility review are eligibility review questions that relate to the ministry and its checks on the municipalities, its eligibility review checks to look at how the municipalities are proceeding with eligibility review and to look at whether municipalities are applying the legislation supposedly correctly, too loosely or too tightly—those kinds of questions. I think we have these two things. I do not have any problem with questioning proceeding on both as long as people understand that what the auditor's report refers to is the question of the ministry's eligibility review officers and their checks on the municipalities themselves.

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Mr. Morin-Strom: I have some concerns, sharing some of the points of view Mrs. Fawcett has brought forward. In terms of my experience as well in my constituency office, the concern I hear most about is not concern about

fraudulent claims, but the reverse, that in fact many individuals or families which should be getting benefits and assistance are not, and that there are many exclusions being put on by the local municipality.

There is a real feeling that the operation of general welfare assistance is quite different from that of the family benefits allowance. We do not get anywhere near the kinds of complaints with respect to your ministry's own operation in terms of controlling family benefits in comparison with the complaints we get with respect to the municipalities and their attempt to minimize their own costs, presumably by restricting benefits, in many cases, to cases which after appeal we find out should have got benefits and are winning cases, and as well—I do not know; in some cases they may be just looking at discretionary benefits—cases of true need where income levels are restricting access to benefits.

Just yesterday, I was talking with staff at Sudbury-Algonia Hospital, which is the psychiatric facility serving the districts of Sudbury and Algonia, about a case of a low-income family on welfare assistance. One of the children has been in care, undergoing psychiatric care in Sudbury at the Sudbury-Algonia Hospital, for many months.

Part of the treatment program as defined by the psychiatrist is family participation and the expectation that the mother in particular in this case should be with the child as part of the treatment at least every second week. Ideally, she should be there once a week as part of the treatment. But as you know, we have a northern health travel grant that because of limited restrictions is not covering it. The bureaucracy is not opening up that coverage, so they have applied several times to the municipality for support for the travel costs to be able to get the mother to be part of the treatment.

It has been granted that assistance on a couple of occasions, but the municipality has generally said after that: "It is too expensive. We cannot continue to provide this kind of discretionary support." I am talking about cases like this, where people are being denied, because of their income levels, the kind of health care treatment families deserve.

I think there are real concerns on the opposite side of this discussion paper with regard to how we can ensure that everyone in fact has access to the same kinds of rights, to appropriate assistance, and is not be denied with exclusions arbitrarily on the basis of income levels. I guess that is a question to both sides. I do not know whether the auditor, as well, has looked at the impact of lack of controls resulting in exclusions from the benefits that should be due.

I am sorry to go on for so long, but I really would like some comment with respect to the impact the lack of controls may have in terms of excluding benefits that should be due to people.

Mr. Barnes: I can respond in general and then I will ask Mr. Kirk to say a few words specifically around mandatory and discretionary assistance. One of the reasons you may get fewer complaints around the ministry than you do around the municipality is not necessarily to do with our excellence or their lack thereof. We are dealing with different clients, on the whole.

Once a person has been identified as unemployable, I will come to the process of getting identified in a second, or there is a sole-support mother—that, fairly normally, is obvious—once that person is on FBA, you have an ongoing situation where specific changes, getting married again or

whatever, change it. The initial discretionary judgemental issue is really one of pure factual evidence.

When you get down to the GWA area, it is much more judgemental as to whether the person is doing the job searches, and so on and so forth. So the potential for discretion is higher, then, in terms of judging. Now that has given us one reason for having it local, because there is better local knowledge; on the other hand, it is another for not having it local, precisely because of the discretion that can be exercised.

Many of the complaints that we and the Social Assistance Review Board have had in the past have, of course, related to people who could not get on family benefits allowance, on GWA, because a medical doctor or board would not find them unemployable. I think the attitude towards that among the doctors and the process which we have gone through in decentralizing our medical review system have in fact provided a more equitable basis for defining employability; the level of complaints in that area is now dropping, I think.

With regard to control over those who are not getting their correct allowances, clearly we do check and follow up on any situations where people are illegally denied welfare. Where it is an issue of judgement, we have the whole SARB process and very active, as I said earlier, advocacy groups and legal aid clinics now, which is making it much more possible for people who would otherwise have difficulties to in fact go through that process.

I am finding that process much improved now in terms of equity. However, the point you are making around the special needs, the discretionary area, I think is a valid one. The Thomson report recommends that area of discretion be significantly reduced so that the sort of thing you are talking about would become mandatory under the circumstances and whatever is worked out in the legislation when it is discussed.

You might like to say a little more about the discretionary-mandatory side of it, Allan.

Mr. Kirk: Mr. Barnes has covered it fairly well, actually. When someone applies for general welfare assistance, his application must be taken. If it is turned down for any reason, he must be informed of the right to appeal and how to go about appealing that decision.

When you look at who is delivering the program across the province, one of the reasons we want to consolidate in those county units that are not consolidated is that when you have someone delivering a complex program like general welfare and doing it on a part-time basis, it is difficult to understand all the intricacies of the program. There may be some problems there where the welfare administrator believes someone is not eligible but it may not be the case. Those are very quickly remedied, either by the area office through a chat with the program supervisor, or settling it through the appeal process that is in place.

The permissive part of the legislation, if you will, allows total discretion at the municipal level to meet the needs of the local people as they arise and as reflected by local conditions. One of the most common ones is, in fact, medical transportation; it is the very case you were talking about, where often relatives, next of kin, need to travel to visit someone who is in hospital or where people have to travel to get medical treatment.

It is not an uncommon question. It is actually not an uncommon question

to us from constituency offices in terms of what the rules are around that, whose responsibility it is. But permissive legislation allows that discretion at the municipal level and the administrators' level, and we do not and cannot, according to legislation, say: "You must offer this service." We can certainly encourage municipalities, and what we encourage municipalities to do is have policies in place so that everyone within the municipality gets equal treatment when it comes to special services, so they do not pick and choose.

Mr. Morin-Strom: I wonder if I could bring up a similar point with the staff from the auditor's office. In your investigation here, your findings, at least the summary of your findings in our documentation, do not specifically give an estimate of the fraud, a detailed report.

Mr. Callahan: Four per cent.

Mr. Morin-Strom: Was that your estimate? I wondered if you had an estimate of the two sides: fraudulent claims, as has been discussed to some degree in this report, overpayments; and then, on the other side of the coin, legitimate claims that have not been provided because of exclusions.

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Mr. Amrite: : Maybe I should respond to that.

Although it did not get into the annual report, we did have a comment on overpayments. One of our main comments was that the monitoring at head office did not collate all this information from municipalities relating to overpayments and fraud. We had some difficulty actually auditing that portion of the ministry operations.

I do not think we are in a position actually to comment on the extent of fraud and overpayments.

Mr. Barnes: Could I add something? Fraud is difficult to estimate and the best estimates we can do is one or two per cent or something like that, but the Social Assistance Review Committee does iterate what you have just said, which is that we should have a central fraud unit of some sort, if only to ensure that we have got the best figures we can get hold of on that subject so we do not get carried away by the concept of a system that has to be directed by the two per cent who might be fraudulent at the expense of the 98 per cent who are not.

It is as much that as anything else and we do not have good figures.

Mr. Adams: Are you in fact following up on the idea of a fraud unit as was suggested by SARC?

Mr. Barnes: I am not following up on anything to do with SARC until the government gives me the go-ahead to so do.

Mr. Adams: If it is in itself a reasonable idea, it might be worth following up on it.

Mr. Barnes: Yes. Let's be fair about this. All these things cost money and there is a time and a place. If the government does decide to proceed with the social assistance review and the recommendations, at that point in time, we will be making recommendations to Management Board and the Treasury as to the sort of simplifications, things we can do administratively,

to bring it all into one piece in the context of the decisions taken at the directions of their—

Mr. Morin-Strom: I have one further question. Is there any evidence that in fact there is more fraud in the system than exclusions? In other words, we are paying out more than in fact the government is saving because of arbitrary exclusions.

Mr. Otterman: As I would clarify again, the focus of our audit was not to actually look at case files and determine from that respect what the potential for fraud or simply clerical errors, errors in judgement, that would contribute to overpayments. If we were to carry out such an assignment, exclusions would be one of the things we would consider which would impact on the quality of that whole process. But I think we could only quote from whatever information would be available in the SARC report.

Mr. Morin-Strom: You have no idea whether overpayments are even larger than underpayments.

Mr. Otterman: No. We would not be in a position, from an audit base, to comment on that at this point. Correct?

Mr. Amrite: That is correct. We said actually that this information is not even available at the ministry level and therefore it is very difficult for us to put any figures or attach any figures to this.

Mr. Kirk: If I can comment, it is impossible to compare overpayments with nonpayments because we have no record of nonpayments. If nothing is paid out, if a municipal administrator refuses to take an application and does not pay out any money, then obviously we have no record of that having happened other than the appeal process taking place.

Another thing, in terms of fraud, the eligibility review system that is in place at the municipal and provincial levels is a fairly vigilant system when it comes to pursuing what we determine to be fraudulent applications and payments made under fraud. Overpayments do not necessarily reflect a fraudulent payment. The overpayment amount and level does not mean there is a great amount of fraud because we do not believe there is a great amount of fraud going on at either the municipal or the provincial level.

Mr. Callahan: I have a couple of questions. First of all, you shook your head about the four per cent and I am sure that is in our research report that it was four per cent of the budget.

The Acting Chairman: It is very clear. It says, "In contrast, approximately nine per cent of one Canadian case load seemed to be involved in fraud involving around four per cent of the total budget for welfare." That has nothing to do with this auditor's report or a finding by the auditor's office that fraud was at a four per cent level in Ontario on general welfare assistance.

Mr. Callahan: Okay. The second thing is I have heard, in my former life, that a student who comes here from another province can go to a welfare office and get GWA. Is that right?

Mr. Kirk: We have no residency requirements. Someone moving into this province from another province can apply for general welfare assistance and, if he is determined to be a person in need, he will be paid.

Mr. Callahan: So if the person is a student and has no income and has not got a job, he can get general welfare assistance?

Mr. Kirk: When you talk of a student, are you talking of a high school student?

Mr. Callahan: I am talking about a university student.

Mr. Kirk: No, a university student would be—

Mr. Callahan: You had better check into that, because I was told that on pretty good authority. It is apparently something that is not uncommon within the university system.

Mr. Kirk: If a person is attending university in this province, it is expected that he will apply to the Ontario student assistance program. Municipal welfare administrators have a great deal of discretion around when they will pay general welfare assistance to someone in training. They will have to approve the training program. To my knowledge, there should be no university students in this province who are on general welfare assistance.

Mr. Barnes: If there are cases that you know of where there are students from other provinces saying they are not students, coming in for the summer and claiming GWA, I would love to know of them, because that is illegal.

Mr. Callahan: No. They indicate that they are students, that they are in the province, have no money, have not got a job, and they can receive GWA. I think they also give them money to get from where they live to their job.

Mr. Barnes: Interim assistance, you mean.

Mr. Callahan: Apparently, yes.

Mr. Kirk: A municipal welfare administrator can issue emergency assistance, which is up to half a month's assistance, to anyone.

Mr. Callahan: How much money is spent? Have you got any idea of the money that is spent on emergency assistance?

Mr. Kirk: No. We are presently looking into the area of emergency assistance to determine how much is in fact paid and how emergency assistance is being used throughout the province.

Mr. Callahan: I would like to go to the \$25 million that was spent on drug benefits. First of all I should ask you, have you any determination or any way of determining what portion of the numbers we were given who are on GWA and family benefits allowance use the Ontario drug benefit plan? We had figures on the—

Mr. Barnes: Are the numbers in the report itself?

Mr. Callahan: We have them through our research. The monthly average—this is 1987-88—for GWA is 212,180.

Ms. Drummond: If I could clarify it, those figures are from the estimates briefing material.

Mr. Barnes: From the estimates book?

Ms. Drummond: From your briefing material for the 1988-89 estimates.

Mr. Callahan: In any event, the figures are 212,180 for GWA monthly average and 324,367 for FBA monthly average. Do you have any information to determine what portion of those numbers, assuming them to be correct, actually use the drug benefit plan? Do you get a breakdown like that from the Ministry of Health or does it just send you a bill for \$25 million?

Mr. Kirk: We get a general entry from the Ministry of Health, but for the purposes of FBA the system that is in place to confirm that those people on whose behalf drug costs were paid were in fact eligible FBA recipients is such that about the only mistakes that will occur now and the only rejections we will get are where a pharmacist transposes digits and sends in an incorrect eligibility number. In terms of actual numbers of drug cards used, the Ministry of Health's the Ontario drug benefit plan will get that information. What they share with us is a copy of their master tape listing the eligibility numbers and the number of payments made in a month. They do share that information with our systems people, but I cannot give you a number here today of how many people actually used their drug cards.

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Mr. Woollard: I just wanted to add one other comment that may not be clear to the committee. That is that the drug card is not a plastic card that is in perpetuity. It is issued monthly.

Mr. Callahan: It is given each cheque.

Mr. Woollard: It is given each cheque and it comes through the cheque.

Mr. Callahan: It is only used once and held by the pharmacist.

Mr. Woollard: The drug card also has the eligible beneficiaries listed right on the card. They are preprinted, so again there are controls in that respect.

Mr. Callahan: I am more concerned about the blank ones that are hanging around municipalities, but what I wanted to know was—I calculated this out, and maybe the way I did it was wrong, but if I multiplied both of those figures by 12 to come up with a yearly figure, which is the \$25-million bill you get from the Ministry of Health, that is about \$4 a person per month.

Mr. Woollard: The average cost per claim, according to the estimates for 1987-88, for family benefits was \$16.12 and the average cost per claim for general welfare assistance was \$14.75. And we have here the number of claims.

Mr. Callahan: So if it is \$16, then we can figure about a third of—my concern is, is there any check done to determine whether or not one person in the card number has got a drug benefit claim for \$100, \$200, \$300 a month?

I have concerns that those cards may be used to purchase drugs for anybody, and sell them, for that matter. I mean, \$25 million to me seems to be an absolutely outrageous sum. I recognize that the Thomson committee determined that people who are on GWA may be in greater need of health care, but is there any correlation or any checking out of that by the ministry?

Mr. Kirk: As Mark says, when a drug card is issued to a client, it

has the recipient's name and the beneficiaries are listed. The pharmacist, when he or she submits the claim to the Ontario drug benefit people, must list on whose behalf drugs were issued. The tape that we share with the Ontario drug benefit people will list those beneficiaries. If there is no match, then it will reject.

Mr. Callahan: Would you at the end of the year have a number with the amount that that number, representing a person, has used in drug benefits?

Mr. Kirk: My understanding is the Ontario drug benefit people could go into the master tapes, but I am not sure they can run them back for 12 months. They always do a six-week check.

Interjection: They have done it for the elderly.

Mr. Callahan: Has your ministry ever asked the Ministry of Health to do that to determine whether or not that \$25 million is legit or is—

Mr. Kirk: Yes. In terms of family benefits that is in place. In terms of GWA, in the municipalities, that is what we are now in the process of getting in place. The Provincial Auditor pointed it out to us.

The Acting Chairman: Just on a point of clarification that we should put out here, we are talking about the drug benefit cards and prescription drugs only, not drugs in general, so the question of fraudulent claims, if you like, is going to be relative to the number of fraudulent doctors out there practising and filling out prescriptions that are not appropriate.

Mr. Callahan: There is a lot of double-doctoring that goes on out in the community. You look at the charges before the provincial courts—

The Acting Chairman: There may be a lot of drugs prescribed that are unnecessary. That is another question.

Mr. Callahan: No, no, double-doctoring, where they go into four or five doctors and get the same prescription from them for various types of drugs.

The thing I would like to find out is—well, you have indicated there is no correlation. You do not get information like that from the Ministry of Health. Is there some suggestion that this plan should be done through the Ministry of Community and Social Services directly, as opposed to through the Ministry of Health?

Mr. Barnes: Not to my knowledge, no. I think that looking to the future again and the whole issue of drugs, the largest problem around drugs, and I accept your points here, is of course the overuse of drugs by the elderly. In the context of all of this, in trying to control costs of drugs, we are going to have to look at card systems. The Ministry of Health currently is looking at the Smart card project to see whether or not it can in fact establish exactly the sorts of controls you are talking about around individual usage of drugs, overprescribing by doctors, different doctors doing different prescriptions, although we have tried to tidy that up, and I think we are having to look at new technology to do this effectively, quite frankly.

The issues then arise around individual confidentiality and so on, but there is a project taking place in Health which is looking at that. Whether what will emerge from that will be its all being done by Health, with our

clients being treated like anybody else in the sense that they get a prescription and the only reason they have a drug card is they cannot afford to pay their part of that drug—they are not on a health scheme or a drug scheme or something like that—I would hope to see over the next year or 18 months some movement in the whole area of the smart card and the use of cards in the drug area. It is moving very fast with the insurance companies and the private sector and I think government is going to have to look at this very seriously itself.

Mr. Callahan: One final quick question: Is the \$25 million for 1988?

Mr. Kirk: For 1987-88.

Mr. Callahan: Can you tell me whether that has increased or decreased from the years prior to that, recognizing there was an introduction of changes in the—

Mr. Kirk: The Ontario drug benefit plan costs are increasing.

Mr. Callahan: Are increasing rather than decreasing?

Mr. Kirk: Yes. I might add that Dr. Lowy's pharmaceutical inquiry made some recommendations around the special authorization system that was in place. I will briefly describe that. If a doctor prescribed a drug that was not within the formulary provided by the Ministry of Health and he felt there was no other drug in the formulary that was similar, he could call the Ministry of Health in Kingston, the Ontario drug benefit people, and ask for a special authorization to issue that drug. That was normally forthcoming.

What Dr. Lowy's inquiry recommended was that this whole system be reviewed. They felt that within that system there was a potential for abuse. That review was completed very quickly and that special authorization system has now been cleaned up. In other words, it is going to be much more difficult for the physician to call Kingston and get a special authorization. The recommendation will be that you use a drug that is within the formulary. There is some tightening up.

Mr. Barnes: The most significant increase in the cost of drugs has been on the family benefits allowance side, in fact. I would probably relate that to deinstitutionalization of psychiatric patients, the very expensive drugs there and so on.

Mr. Woollard: One other point in answer to your question: In the general welfare assistance program, the average number of claims per beneficiary has not been rising in recent years; it has been holding very constant. The increased expenditure is largely coming from the increased cost of drugs as opposed to increased utilization or increased case load in the general welfare program.

Mr. Adams: I would like to get us talking about the monitoring thing in more general terms, because it seems to me that was what the auditor was addressing. I think you know this committee has an unusual relationship with the Provincial Auditor. We are quite interested in the provincial audit system, you might say. On this side of the House, anyway, one of the things we are keen on is that the various parts of the government—the ministries, the commissions, the agencies—that the auditor checks into be allowed to run as

freely as they can and that the auditor occasionally be able to see, from our point of view, if the thing is working.

Mr. Barnes, as you explained, you are absolutely pioneers in this decentralization business, and we greatly admire that. That is the only way to go as far as your ministry and most other areas of the government are concerned. You have this added thing of the complexity of layers and all that stuff which you very nicely described to us, but the more decentralized, and if I might add the more complicated the system is, the more important the monitoring system is. As you said, you then start running the line between putting in so many people checking that you are defeating the purpose of the decentralization, or having it running free and people asking you questions about fraud or waste or whatever it is.

It seems to me that is what we are talking about. What we, as a committee, are asking you is, what progress have you made since the auditor made these observations in this overall monitoring system?

Perhaps I can just go two more minutes. In the monitoring system you have a number of things. You have the staff, your review officers. We might say, and I know you have answered some of these things: "So you have increased the staff. Fine. How many?" and so on. "Give us some indication of that."

It is not just a question of staff. What is the quality of those people? Are you sure they are good people? Are you sure? Have you put in place some way of checking that their work is going to be good? Do you have ways of training them, if that is appropriate? Are you bringing in the right people? That is the staff side of it, the numbers of people and the quality of those people.

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The other side is the information they are dealing with so that, as with our own auditor, the situation has to be such that they can go in fairly quickly, understand the system and come out again. You deal with these municipalities, with this complicated situation. What sort of information are you requiring or are they giving you or are you going to require that they provide the staff that you have in place? That is the information side of it, to develop uniform reporting standards and so on.

Between those two things, there is the statistical system and Mr. Barnes hinted at it. How then are you going to use these two things? Are you going to go on a sample basis, go for 90 per cent of the population and that will be fine, and sample them over time in some fashion? How automated is this thing going to become and so on?

Could you talk in those terms about whether the system you have is systematically addressing the monitoring problems the auditor identified.

Mr. Barnes: I would like to respond in general terms.

Mr. Adams: Sure. I would like you to talk; it is progress we are looking for.

Mr. Barnes: You are raising genuine issues for us, ones that are of prime concern to us. For me to pretend that I have as many staff as I would

like to have to run the system as well as I would like to run it would be nonsense. I do not.

We have done well in a time of constraint in terms of size of civil service and staff in the sense that we have received 200 staff over the last two years. However, it has not enabled us to maintain case load levels or to reduce case load levels, because of the equal increase in the number of people coming on to family benefits allowance and general welfare assistance.

In terms of the staff, we always, as I said at the beginning, have a choice to make. The choice is really not a choice. It is invidious. We have only one answer to go to; that is, when we have high case loads and we are not able to deal with people as quickly as we should or revisit them as often as we should, we go to service to the individual before we go to monitoring. It is as simple as that.

I would prefer to have more staff on monitoring, but if I were given another 50 staff tomorrow, I would put them on to front-line case load work. I would not put them on to monitoring. It is as simple as that. Much as I would like to have it, much as I would like to give you all the information you are asking for, I would not be able to do it until I had reduced the case loads beyond the level they are at right now.

In terms of our relationship with the municipalities, I think it is worth bearing in mind the historical basis from which this came. It came from an historical basis. This is why, I think, my minister was so keen on proceeding with the Social Assistance Review Committee. Income maintenance, having given out money on the basis of, "Neither a borrower, nor a lender be," became fairly punitive historically. The object was to ensure that nobody got what he should not have. The accent was on control, as distinct from assistance.

The municipalities were therefore given, regarding those people who are capable of working and damned well should be at work—if you understand what I mean—their freedom to actually be as tight as they could possibly be, which is fine in terms of protecting the public purse. Whether it always worked in the favour of the individual is a completely different issue. Coming from an historical situation, municipalities perceived themselves to be responsible for the administration of GWA and for ensuring that the wrong people did not get GWA.

One of the things that is annoying for municipalities, quite significantly now—though I gather the chairman of the Social Assistance Review Board is trying to sort it out—is the extent to which she is in fact awarding interim payments despite the municipalities saying, "It is not necessary in this particular case, while a hearing is heard, to see whether or not that person was properly judged."

If we move to a role where the accent assumes that most people want to work, that what we want to do is try to help those people go back to work or provide them with an opportunity to live a better quality of life in the community, so that when our staff is visiting them they are spending more time trying to help them attain a higher quality of life, be more productive or less lonely or whatever the case might be, rather than following up on the figures the whole time, then I think we will be able to devote more staff to the monitoring side of it and concentrate our attention where we should.

For example, I am not entirely happy about a system that requires I

visit everybody on FBA once a year. One, we do not always manage to do it and two, they do not need visiting once a year. A man with no arms and no legs is clearly unemployable. He should be visited in terms of support and homemaker care, but to have somebody go in to check whether he is still unemployable or not because the legislation says so is patently ridiculous.

What I would like to do therefore, through a statistical process, is to identify those sorts of people, and without getting amateurishly technical, apply some standard deviations and knock out the 80 per cent I do not have to spend any time with, concentrate on the 20 per cent I do need to spend time on, and ensure the balance of the 80 per cent are looked after in other ways.

That requires changes in attitude of society and public, because we get beaten into the ground every time one person defrauds or is getting self-support mother's allowance inappropriately in a small town and everybody knows. Immediately, the complaints require: "Tighten up the system. Do this; do that." We are dealing with a societal attitude as much as anything else from which, I guess, income maintenance has come in history. One of the things I was pleased with about the Thomson report is that it has done as much as anything I have seen in the 15 years I have been in government to change attitudes towards the whole concept of income maintenance and what it is about.

In government, we have developed excellent program information, on the whole. What we have not developed in government and I am sure the Provincial Auditor will bear me out on this, and I miss it, is management information. I do not have enough management information. I used to work in the private sector and I would not want to run my company on the amount of management information I have, though I would be delighted and in fact very impressed by the amount I know about the program itself, the individuals and what I could get on that side of it.

What we are trying to do in our ministry is to put down as near to the front-line as possible the program side of it, and then try to develop a management approach and a set of management information systems that will enable us to do the sort of analysis you have been asking us about today. What is happening to the drug benefit situation? Why is it going up? What role are your clients playing in this? Are the GWA people taking more than their share of it, if we look at the rest of the population? Those are the sorts of figures we should have. I am calling those management as distinct from program: How well do we provide a special need program for John in wherever it might be?

I am looking to a time when as we simplify the process, as we develop a recognition that there are a lot of people on FBA and GWA, or certainly FBA, who do not need to be visited on a regular basis for FBA purposes, and as we get to a point where we introduce our comprehensive income maintenance system across all the municipalities, and that process will be starting, I think, on April 1—

Mr. Kirk: It is starting now.

Mr. Barnes: It is starting now—we will then have an information system common to both province and municipalities. We will then have the sort of data that will enable us to do the analysis. We have a lot of data now and I do not have all the staff I would like to have to do all the analyses I would like to do, so we are short on data. We are short on the sort of

systematic approach to management that I think we need to effectively run the decentralized organization I am talking about.

Our decentralized organization, I think, has worked because of the type of programs we run and the increased sensitivity we can provide program-wise at the local level. I do not pretend that we are nearly as good as we ought to be in terms of the central management information that would enable us to ensure we give it the maximum consistency in terms of management program out of our areas.

When I was assistant deputy minister, operations, in 1981, I spent most of my time dealing with panics, alarums and excursions and detailed program. I am pleased to say today that my ADM, operations, does not have to spend his time on that. His time, I would say 80 per cent of his time, is spent on trying to develop the systematic operational system I am talking about. We are not going to get it overnight.

Mr. Adams: Let me come back to that.

The Acting Chairman: Very briefly, Mr. Adams.

Mr. Adams: In our offices, we have enormous sympathy with the social side of what we are discussing here—we really do—the difficult decisions that have to be made, the desirability of everybody who is in need being supported as quickly as possible, and so on, and so we should be; there is just no doubt about it.

But we are 10 years into this thing, and when you get to a situation when we are sitting here on the public accounts committee and conceivably millions and millions, and perhaps ten of millions, conceivably hundreds of millions for all I know, of money are going the wrong way, whatever the wrong way is—perhaps the wrong people are getting it or whatever it is. At that point, the monitoring becomes very significant. It is actually feeding back, if I might say so, I think, in the area of Health with the huge budget. We have reached that point where out of genuine concern for individuals, we have got to a point where many individuals are suffering.

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Going back, the auditor focused on the monitoring system. You have addressed it, your very last remarks in particular, about the way it is being systematically done. You mentioned Quebec. Have we, for example, systematically looked at Quebec, say, and British Columbia in this light? You mentioned one thing where we reject it, where we are not taking their approach. Have we systematically looked at it and said, "Fine, that's shaped our view and we're now going to do this"? Are we doing that?

Mr. Barnes: We are looking at income maintenance systems all the time. We have been down to the United States and looked at the card systems down there. Some of the impact comparisons within Canada are a little unfortunate in the sense of size, volume and numbers. In defence of the income maintenance system we have right now, I am absolutely satisfied that a very minimal amount of the total money is going the wrong way, as you put it.

We have very good individual control. We will have better individual control under comprehensive income maintenance system. I am not going to dump on my neighbours from Health, but our system is a model of control compared with the Health system. All I would add to it is that in terms of the

management required to ensure the resources we use to administer that system, we do not have the information to use those resources as effectively as I would like to be using them.

I would like to spend more time on monitoring, not in the sense that monitoring implies of stopping fraud, but in the sense of ensuring that we are getting consistency, that in fact the programs are being properly implemented and the municipalities are being helped to be as efficient in the use of their resources as they possibly can be. We have difficulties with that.

Mr. Adams: Are the CIMS targets all on track?

Mr. Barnes: They are now, yes. I think that would be a subject for discussion some time.

Mr. Adams: How am I doing, Mr. Chairman? Have you got a long list there?

The Acting Chairman: I have a couple more people who want to get on.

Mr. Adams: Can I make one tiny observation?

The Acting Chairman: Very tiny.

Mr. Adams: You mentioned the three remaining counties that do not have this matter at the county level. I, of course, represent a large part of one of them and I would like to go on record as saying that you have my complete support in the change, and some of us here have reasonably high hopes that there is support elsewhere for you.

Mr. Barnes: Thank you.

Mr. Villeneuve: I ran into a very frustrating situation here not long ago. I will explain it a bit and maybe you can expand on whether this happens regularly. A young lady still going to high school left home, apparently moved in with her boyfriend and was apparently receiving assistance from GWA. Her mom phoned me and said: "Look, I can't talk to her social worker. She won't tell me anything. I want my daughter back." These people are well off. She says the system is encouraging this kind of stuff, not only encouraging it but supporting it.

Can you comment on that. Is this a regular occurrence? I was frustrated in that I could not find out any information. That is fair game; it has to be confidential. But the mother could not find out what was going on. This is in a small town.

Mr. Barnes: This is an emotional issue. I have difficulty in dealing with this. It is all to do with the legislation, the age of the individual, the rights of the individual, the right of the individual to privacy. We have to be terribly careful how we deal with this. If we are to believe that one in five girls is abused at home—I am not making any connection here; do not get me wrong—we have to be terribly careful that we do not get on to parents or force children home because of lack of support, when they have left home for a very good reason.

It is all this issue of what is going on in the family, the relationships, the right of the individual under law and so on and so forth. The law currently states that we cannot go over those rights. I accept

entirely your point, in a small town or a large town. If my daughter left home and she was 16 1/2 years old and I could not find out what the hell was going on, I would be cross too. Maybe the way is to change the law; maybe the way is to change attitudes.

You are dealing with something that is a frustration for us all. I am not going to come down on either side, because I see bad children and I see bad parents. I am not sufficiently godlike to know whether I am making the right decision. I do not know whether you want to add to that. I can only deal with it at that level. It is very much a political societal issue as far as I am concerned. All we can do is administer the law we are given.

Mr. Kirk: I think you have covered it fairly well, Mr. Barnes. It is a very emotional issue. Interestingly enough, for the most part the questions we get around 16- and 17-year-olds who have withdrawn from parental control are much more in the area of appeals because the municipality will not issue assistance. There must be special circumstances present before the municipal administrator issues to a 16- or 17-year-old employable person.

The special circumstances are, for the most part, that there was good reason to withdraw from parental control. They will discuss that with the 16- or 17-year old applicant and usually will get in touch with the parents to try to determine what the breakdown has been. If it is something as simple as, "We have a 10 o'clock curfew rule in our house and the 16-year-old will not abide by our 10 o'clock curfew rule," chances are the municipal administrator is going to send the young person home. But you have to be very careful because abuse does exist and family breakdown does exist. I do not think we are encouraging family breakdown, nor are we encouraging 16- and 17-year-olds to leave home.

Mr. Barnes: I think we are very dependent on local assistance too. Hopefully, local knowledge at this level enables that sort of flexible judgement which we could never implement in a centrally based system to take place. But I am sympathetic to your point.

Mr. Villeneuve: Yes. I think what I was hearing was that there seemed to be a lack of communication, whether it was wilful or otherwise, between the mother of this young lady and the social worker. There seemed to be something. I certainly can appreciate that the social worker was not going to provide me with information—it was not within her authority—nor did I want it. But I wanted some communication between mother and social worker, and that seemed to be the difficult area.

Mr. Kirk: It surprises me.

Mr. Barnes: I am surprised by it, yes.

Mr. Barnes: We can always ask around a little in individual cases if you want to let us know confidentially, but that should have existed in that situation.

Mr. Villeneuve: In small towns we have professionals who are very good at getting the last dollar out of the system, and they are well known to everyone. They sometimes tend to slant the thinking of people in the opposite direction. I think we all understand that.

Mr. Pelissero: I would just like to focus for a second on something that my colleague Joan Fawcett brought up earlier in terms of the toughness in

the rural areas as opposed to the Metropolitan Toronto area, and I come from the Niagara Peninsula which unfortunately has the honour of having probably twice the unemployment rate that Toronto does. In light of the concept of uniform application, so that a welfare recipient or a person who goes in to apply for GWA or FBA is treated equally and fairly right across the province, what can we do to ensure that happens, recognizing you are dependent on a local delivery system?

Mr. Barnes: In terms of the basic allowance on the mandatory benefits, there is as much consistency as we can get out of it. It is on the special assistance and special needs that we have the inconsistencies. I do not know Niagara, but certainly based on the special assistance that Toronto provides, it is more generous than some rural areas. The Thomson report suggests that we should reduce the discretion of the the municipalities in those areas in order to get a more uniform approach. I do not think there are many of us who would disagree with that in terms of uniformity or consistency. The issue of cost of course is relevant.

In answer to your question, I think in the basic needs allowance I would see consistency. In terms of the special assistance, which frequently makes the difference between survival and being able to visit your child in hospital and so on, we would like to see greater levels of consistency and greater humanity.

Mr. Woollard: I might add that there is perhaps one other area, and that has to do with this question of the job search requirement that came up in earlier discussions. I think there is a strong argument that says you should have flexibility across municipalities to vary the application of the job search requirement. For example, in 1982-83 when we had unemployment rising very rapidly in the province, that rise was occurring differentially. Windsor, for example, was experiencing a tremendous growth in unemployment and for a time the local municipality there completely changed its policy around job search, especially for anybody who had been laid off from the auto industry, in terms of softening, if you like, the requirement to almost a nonexistent requirement for a period of time; being sensitive to that local condition. That comes back to the point Mr. Barnes makes, that if you have a centrally controlled system that determines what a job search requirement is, it is very difficult to establish that local flexibility you have to have to be able to respond to those rapidly changing economic conditions that are occurring at a local level.

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Mr. Pelissero: I agree. In the Niagara Peninsula, again with the fruit and vegetable industry, we rely for a large part on offshore labour coming in. I constantly get comments like: "If we have such a high unemployment rate, why don't we force those people to work?" As you explain to individuals, that does not help, first, the person who is on welfare, or, second, the farmer, because sometimes literally years of investment in a crop or an orchard can be destroyed in a very short time by someone who really does not want to be there.

Without getting into the SARC report and recommendations about the disincentives we have built into the system, hopefully we are going to be addressing the overall system in years to come, whether it is individuals who say, "With the proposed unemployment insurance changes, now we're going to have to work X number of weeks"—That, in some cases, happened to correspond to the fruit industry in the Niagara Peninsula, just matched it nicely; then

somebody went on UI till after that. We can all relate individual stories of that, but again I think the Thomson report pointed out and exploded some of the myths around who is on FBA and GWA.

Mr. Barnes: Exactly.

Mr. Pelissero: I do not think we should lose sight of that from an auditing perspective. That was a comment I made yesterday when we had the briefing. From the figures we saw yesterday, the maximum a single mother with a child under family benefits can receive is about \$10,000, and the Thomson report tells us that the amount of time they are on is a maximum of about six months. Assume they are beating the system, say, for half of that: that is only \$5,000. You have to pile up a lot of \$5,000 fraud cases in order to justify, first from a humanitarian, and second from a cost control point of view, going out and hiring all kinds of review officers. In my mind, it is like spending \$10 to recover \$2. It just does not make a lot of sense.

Mr. Barnes: I agree with you absolutely. The issue that faces us as we work our way through this and respond to all of this is making sure we get down absolutely the agreed guidelines of what it is we are meant to be monitoring and collecting. Then the Provincial Auditor has a very clear basis on which to judge us. That will lead to a much easier life for both of us, I think.

The Acting Chairman: At this point, I will ask the auditor's staff if they have any last questions or comments that result from the discussion so far this morning?

Mr. Amrite: I want to get some clarification. We are talking here about the GWA; we are dealing with 350-odd municipalities. Has the ministry given any thought to maybe looking at the larger municipalities? We cite at the top of page 51 of our annual report that approximately \$460 million of the \$604 million is going to about 12 major municipalities. Perhaps when you talk about the management information system, you may want to zero in on the bigger bucks—

Mr. Barnes: I would not disagree with that. Of course, zeroing in on the bigger bucks also means zeroing in on the most entrenched and costly systems that have been set up separately by municipalities, particularly in Metro Toronto. Frankly, one of our problems with Metro Toronto, as I said earlier, is not the agreement that we need to do it, but who does it and how it is done. In terms of monitoring Metro Toronto, their staff is just phenomenal. In other areas, we are pitching three or four accounting staff against scores of theirs in terms of trying to work out what is going on, making sure the allocation of overheads is done correctly and so on.

But you are quite right. The regions and the cities fundamentally carry between 70 to 80 per cent of our case load. That is all the statistical information we need sitting right there for us to draw all the analogies and conclusions we need to draw. You are quite right.

The Acting Chairman: I have exhausted my list of requests from members of the committee for questions, so the question I have to put to the committee now is: Do we want the ministry staff back here at two o'clock for further questions or is everybody satisfied that they have had all of their concerns addressed?

Interjection.

The Acting Chairman: Okay. Thank you, gentlemen, for your appearance here and very good information you have provided us with this morning.

The second question I then have to put to the committee is: Do we want to return here at two o'clock in camera to discuss recommendations growing out of this discussion this morning?

Mr. Adams: I know we have time towards the end of the week, but I think a short time spent immediately afterwards would be a good idea; it may well be quite a short time. For myself, I would say yes.

The Acting Chairman: Okay. We will reconvene at two o'clock, in camera. Thank you, gentlemen.

The committee recessed at 11:57 a.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988:
MINISTRY OF REVENUE

WEDNESDAY, APRIL 19, 1989



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke-Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Adams, Peter (Peterborough L)

Ballinger, William G. (Durham-York L)

Collins, Shirley (Wentworth East L)

Cousens, W. Donald (Markham PC)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Nicholas, Cindy (Scarborough Centre L)

Nixon, J. Bradford (York Mills L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Callahan, Robert V. (Brampton South L) for Mr. Ballinger

Charlton, Brian A. (Hamilton Mountain NDP) for Miss Martel

Lupusella, Tony (Dovercourt L) for Ms. Collins

Morin-Strom, Karl E. (Sault Ste. Marie NDP) for Mr. Pouliot

Clerk: Arnott, Douglas

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Revenue:

Russell, T. M., Deputy Minister

Rowsell, Derek, Acting Executive Director, Tax System Operations and Design
Division

Moxley, Bob, Acting Director, Motor Fuels and Tobacco Tax Branch

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

Peall, Gary R., Director, Ministry and Agency Audit Branches

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, April 19, 1989

The committee met at 2:09 p.m. in committee room 1.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988
MINISTRY OF REVENUE

Mr. Chairman: I recognize a quorum. We are dealing with section 3.12 of the 1988 Annual Report of the Provincial Auditor. We have before us Terry M. Russell, deputy minister; Derek Rowsell, executive director, tax systems operations and design division, and Robert Moxley, director, motor fuels and tobacco tax branch.

This afternoon I propose, and the committee agreed this morning, that we will be sitting until 4:30 because members have some other commitments. We will reconvene tomorrow at 10 o'clock and continue on with the same matter. We would like to break it down into three sections, so that we may have some consistency in our questioning. The logical way of going about it, I think, is to begin with the gasoline and other fuel taxes, followed by tobacco tax issues and land transfer tax issues.

I propose that probably we will need all of this afternoon on the gasoline tax issue and then deal with the other two matters tomorrow. That will give you some indication, in case you have staff here who are not connected with that particular topic, that they need not spend a lot of time sitting around waiting for a matter we are not likely to get around to.

I understand that the deputy minister has an opening statement, after which it is our custom to ask Mr. Archer to make some response and some comments on the matter that will be before us. Then we will open it up to questioning by the members.

Mr. Russell: I have distributed copies of my remarks. Is it your purpose that I read them now?

Mr. Chairman: For the sake of the record, why not read your opening remarks and add anything else you or your staff wish as a preamble to what we are about. Particularly, would you address yourself to the gasoline tax issue this afternoon? You may have some other remarks at the beginning of each of the other two topics.

Mr. Russell: Very well. My opening remarks will be brief. In particular, I shall offer some general comments and observations on the questions raised in the Provincial Auditor's report which I hope will be useful in the committee's examination of the auditor's findings and recommendations.

First of all, I am pleased the report states that the management and administration of these taxes is satisfactory and cost-effective. Certainly whatever shortcomings are noted in the report we feel are capable of rather quick and easy correction.

The substantial issues raised by the auditor concern the evasion of

tobacco and fuel taxes. In this connection, the report also contains the ministry's fulsome, point-by-point response. The committee will note that, for the most part, in our response we agree with the auditor's assessment of the problems of tax evasion and his recommendations for corrective actions.

At this point, I wish to assure the committee that we take evasion of any of the 11 taxes administered by the ministry to be a serious matter to which we devote considerable energy and imagination. Overall, I believe the ministry has demonstrated a good record of maintaining the integrity of Ontario's taxes. As emphasized in our annual reports on improved customer services—incidentally, those are the reports which I distributed earlier on—our first objective is always to encourage voluntary compliance by the majority of taxpayers and to correct minor infractions before they become serious and ingrained.

Our second objective involves the judicious and selective use of ways to detect wilful evasion by a minority of taxpayers. In recent years we have made considerable progress in our ability both to monitor taxpayer compliance generally and to deal with evasion, particularly through improved auditing and investigative methods and skills, exploitation of advanced computer technology and increasing co-operation with other Canadian and US jurisdictions.

Even so, it must be admitted that evasion is endemic in all taxes in all jurisdictions. Realistically it is something we can at best expect to control only within reasonable and acceptable bounds. As the Provincial Auditor's report notes, evasion is particularly threatening in the taxation of motor fuels and tobacco. This is because high tax rates provide correspondingly high rewards for evasion, while the nature and mobility of these products provide almost unlimited ways of moving them without detection.

For these reasons, control of evasion must be viewed as a continuous process in which tax authorities are constantly revising existing practices and introducing new measures to deal with new and more imaginative methods of evasion. Inevitably this means that our actions are largely reactive, not least because we must always conclusively demonstrate the need for additional controls which impose more restrictions and costs on legitimate businesses.

In this context, I believe the Provincial Auditor's report is exactly descriptive of this continuous process at work in the area of fuel and tobacco taxation. That is, given the dynamic nature of evasion, it is not surprising that at any point of examination existing control methods will be seen to be inadequate to deal with the latest generation of evasion schemes and that consequently there is a demonstrated need for new and improved remedies.

Consequently, I also believe there are two tests by which our effectiveness in controlling tax evasion should be reasonably judged. The first is whether we have a good track record of continuous actions to counteract new permutations, or indeed mutations, of evasion and how effective we have been at each stage.

The second and perhaps most immediate test is whether the Provincial Auditor's examination revealed and defined problems of which we were unaware, whether his recommendations involved actions which had not already occurred to us and whether in fact we were already in the process of implementing similar or alternative collective actions.

I hope I can convince the committee today that the ministry scores well on both of these tests and is energetic and effective in controlling evasion.

We very much welcome the opportunity to discuss this vexatious problem as well as to benefit from the guidance and suggestions of the committee in strengthening our ability to deal with it.

Mr. Chairman: Thank you. I am sure the members of the committee appreciate the fact that you have accepted the auditor's findings and that you have agreed with his recommendations. They want to get into how you are implementing those recommendations more specifically but, first of all, I am going to ask Mr. Archer to have a few opening remarks on this.

Mr. Archer: I have just a few general comments to provide a setting, I guess, for the discussion. The purpose of the audit, what we undertook during the audit was to examine the motor fuels and tobacco tax branch of the Ministry of Revenue. Our objective was to assess the adequacy of collection procedures for gasoline and fuel taxes, for tobacco tax and for land transfer tax.

I think it is well to get on the record the monetary amounts involved for each of those. The sum total of those three taxes in the year we looked at, 1987-88, was \$2.4 billion, which breaks down at \$1.3 billion for gasoline and fuel, \$640 million for tobacco taxes and \$470 million for land transfer tax.

I believe today you want to deal, Mr. Chairman, with just the gasoline and fuel taxes. With regard to that aspect of the audit we concluded, as the deputy pointed out, that collection procedures were satisfactory overall. It is unfortunate that the main conclusion and really the main result of our audit was lost by most of the media coverage of this subject. The deputy has got that on the record, and I think it is well to emphasize that.

However, having concluded that, we did comment on some revenue shortfall that involved both the import and the export of fuel. Particular reference was made to export tax evasion schemes and the concern of many jurisdictions, not only Ontario, but Canada, the United States and the state of New York, for example, about the extent that this type of activity was going on.

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We also pointed out something that again got a lot of media attention, which was the possibility that, in the United States at least, organized crime was involved in the exercise.

I think that is about all I have to say, Mr. Chairman, at this point.

Mr. Chairman: Thank you. Gary, do you have anything to add to that?

Mr. Peall: Not really at this point; no.

Mr. Adams: Mr. Russell, could we start with the last part of your presentation and with what you describe as the second and most immediate test? Were you aware of the sort of thing the auditor mentioned in his report and of the scale? Could you talk about that?

Mr. Russell: Certainly. The short answer to that is yes. However, in the matter of scale, if you were suggesting that we subscribe to the particular measure of \$100 million or whatever, no, we would not subscribe to that particularly, simply because it is immeasurable.

As we understand it, there are particular ways in which you have built

that assumption which could be questioned and argued about, but we would certainly agree that it is a serious problem and it is capable of moving from the endemic to the epidemic stage at any time. We have certainly encountered that in the past from time to time, and that is why I wanted to make this point about a continuous presence.

It is like painting the Brooklyn Bridge. You no sooner get it done and it is looking good than some other practice, some other disturbance in the balance of taxes between jurisdictions, for example, will occur and a whole new wave or generation of avoidance schemes will be activated and developed. We move and we tackle those and knock them down, and so on.

But certainly we were aware of this. I think the auditor, in turn, would agree that these people would have benefited in very large measure from exactly that information which we had within the ministry and which, of course, was made available to the auditor.

Mr. Adams: I understand what you say about the continued process, and at some point, some scheme reaches a threshold when you should do something. I really was struck by two things. One was simply the scale. It has been indicated to us that the profits might be in the order, I believe, of 62 cents on the gallon. This is the dyed fuel export aspect only. The second was the mention in the auditor's report and, of course, in the media—although the fact that it is in the auditor's report makes it more interesting for us—of the involvement of organized crime. In other words, we are looking at something of a very considerable scale.

If the profits are that great, when you think of a tanker, one tanker going through might in fact be worth thousands of dollars and the number of tankers that are going through, and so on, do you now think that is real? One hundred million dollars, by the way, is suggested as a conservative estimate.

Mr. Russell: Is it? I do not know. I think the auditor might explain how he derived the number. As I understand it, it is likely to be, if you assumed almost the total value of export fuels from the country and from the province being reimported for tax-free use—

Mr. Chairman: I am going to ask Mr. Archer to comment on that.

Mr. Adams: There are 27 trips by one tanker and \$80,000 mentioned in the report. That was one obvious basis. That is a lot of money. That is one tanker.

Mr. Archer: Just to try to clarify that figure of \$100 million: Again, what we said ahead of that was that we were really unable to estimate the extent of tax avoidance, but in order to put some kind of parameters on the problem, we quoted a figure of \$100 million as being the upper limit of any such tax avoidance. So the amount of tax avoidance is between zero and \$100 million. We did not say that it was \$100 million.

Mr. Adams: Excuse me a second. Again, have you any sense then of the magnitude?

Mr. Russell: No, I would not hazard a guess. If we talked to our colleagues in Customs and Excise Canada, they would deploy much lower numbers.

Let me emphasize that I am not disputing that this, by any measure, is a serious matter. It is a common thing for people to ask us: "How much money are

you not collecting? What is the size of the black economy? What is the scale of leakage?" Of course, the truth of the matter is that we do not know. It is the sort of thing where if we knew, it would not occur.

Mr. Adams: You understand that we obviously are not professionals in the way that you are or even the way that, in a short time in your ministry, the auditor's team has become. But what concerns me is this mention of organized crime. Is that just a scare tactic or is that real? If it is real, I suggest we are talking about a lot of money. Do you have any sense of that?

Mr. Russell: No. It is an easy thing to say that organized crime is involved. From the way it occurs to us and the ways in which we can presently tackle it, we may or may not notice it; it may or not be relevant to what they are doing. Organized crime is almost an emotive thing. It represents an ultimate degree in evil. The whole thing is a gradation of that, if you like.

I think the auditor might say that by the nature of the evidence he obtained in the United States, it was organized crime; or was this just common legend among people? This is the sort of thing people talk about in very loose terms. If it is not substantial or whatever, I am not too sure exactly what it means to us. It might mean to us that we deploy ourselves or we involve ourselves with the law enforcement agencies in different ways, perhaps in quicker ways.

Mr. Adams: I would like to say that if it had only been in the media, I would not have raised it because I understand, as you said, that it is emotive. I accept that. I think it is very important what the auditor says now because this is in the report of the Provincial Auditor. That is where it is. That really is a flag to me. That is perhaps because, to some extent, I trust the auditor.

Mr. Villeneuve: What do you mean by "to some extent"?

Mr. Adams: You see my point. I am not just picking this up out of the media and asking you a question about it. Could the auditor respond to that?

Mr. Archer: I think the most obvious reference that reasonably refers to the term "organized crime" is the organized crime and racketeering section of the US Department of Justice, which is involved. It seems to me, just by the name of that group, that there must be a suspicion of organized crime. This group, among other things, set up a petroleum excise task force to investigate organized tax evasion activities in the United States and Canada, specifically in the state of New York and the province of Ontario.

They go on to mention the number of jurisdictions that are involved in the task force. I believe that Ontario has applied for membership on that task force. Mr. Russell may comment on this later. The unfortunate part is what is meant by the term "organized crime." I think when the general public see "organized crime" in capital letters, they probably think in terms of Mafia or something really serious like that, whereas it would seem to me anything that involves more than one person in some kind of an administrative or organized arrangement to defraud could be considered organized crime.

Just to cite an example, a couple of Fridays ago the Globe and Mail, I guess, said there was a situation in the province of Quebec where five Montreal residents were charged with operating a gasoline importing scheme costing something like \$6 or \$7 million in lost taxes. I think "organized" in

that sense is a little easier to accept than "organized" in the large sense of Mafia.

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Mr. Russell: If it means systematic, purposeful, well directed, well conducted and more than one person, then clearly we have organized crime. I thought that obviously—

Mr. Adams: And so did I. As Mr. Callahan said, it does not matter. That is one point, but the media coverage of this in our briefing does talk in terms of capital O capital C and it mentions families. I remember three families in New York from one of the articles. So whatever it is we are talking about, I am not talking now about an organized group of truck drivers or something of this sort. I mean, are we in fact talking about something that is really serious, meaning Organized Crime, with capitals? Do you have any sense of that?

Mr. Russell: If it means that, it means people go about it in an organized, purposeful way, making it something of a mainline business and organizing their sources of supply; you have to get into very sophisticated methods of transportation and of distribution. Yes, in that sense it is organized. It is serious. These people mean business.

Mr. Adams: What about going further then? If it is capitalized, are they organized to the extent of bribing officials?

Mr. Russell: I have absolutely no signals, signs or sense on that at all.

Mr. Adams: I will defer to Mr. Callahan before we go back to the formal questioning.

Mr. Chairman: Maybe Gary Peall would like to add something to that.

Mr. Peall: I guess that in terms of the traditional definition of organized crime, we could obtain no specific proof in Canada that groups like that were involved, but the United States was much farther along in the investigation of this type. They had a congressional committee set up because they were so concerned about the level of involvement of traditional organized crime, and those are the articles you hear being referred to and the murder that resulted and all the rest of it.

Mr. Callahan: I find it not to be of any benefit to say whether it is organized crime, big capitals, little capitals or whatever. The very fact is that it is a significant amount of revenue that is being lifted out of the public purse that could be used for far better purposes. I notice, Mr. Russell, that you are quoted in the newspaper as saying that you are not aware of any charges being laid in Ontario over fuel tax evasion scams. Is that correct? There have never been any charges laid?

Mr. Russell: I am not sure in terms of the context of that particular quote. May I ask my colleague, Derek Rowsell, what the answer to the question is? Have there been any prosecutions and what is the prospect for investigations and prosecutions?

Mr. Rowsell: We have a special investigations branch in the ministry that is quite separate from the motor fuels and tobacco tax branch. The

mandate we operate under is that if there is any suspicion of any fraud or of any wrongdoing at all, there is an automatic referral by the motor fuels and tobacco tax branch to special investigations.

With reference to the task force, I think that task force was created in early 1988. It is about a year old. We are in touch with that task force. We have been in touch with counterparts in all jurisdictions, including New York state, for many years. Where the special investigations branch people find the matter is larger than the branch, so to speak, they then call in other police forces and get in touch with colleagues in other jurisdictions, if in fact it is an interjurisdictional matter.

At any given point in time we participate in that kind of activity, and at any other point in time investigations are either coming to an end or it is throughout the course of the investigation, and at some point charges may well be laid. They may well not be laid by Ontario. If they are sufficiently significant, they would be a federal matter. The appropriate jurisdiction may be Quebec or New York state. It is not particularly significant that the charges have not been laid in Ontario. These are multijurisdictional investigations which are ongoing at all times.

Mr. Callahan: Is the short answer to my question no, there have not been any prosecutions in Ontario?

Mr. Rowsell: There have been a number of assessments raised, but I do not think prosecutions.

Mr. Callahan: No prosecutions. This has presumably been going on for a significant period of time and it has reached mega-proportions. I think perhaps the reason the auditor and others consider this to be organized crime is that we were given certain press statements from the United States that show a very clear scheme that is almost identical.

In fact, it is more profitable in Canada because of the price of our gas, perhaps even the value of the dollar and all the rest of it. That is the reason he probably put two and two together and I think he came up with four, which is not a bad answer considering what is going on in the United States.

Mr. Chairman: Before you go on, there is something that is confusing to me. When you say that you have not charged them, you mean the provincial government has not laid charges. That does not mean the Canadian government has not laid charges. There have been charges laid by the federal government, have there not?

Mr. Callahan: There is some doctor, some entrepreneurial guy in Midland who was charged and convicted apparently, and made quite a handsome profit out of it. That is why I wonder if it is organized crime or if everybody has his finger in it.

Mr. Chairman: Just because you are a doctor does not mean you are not organized in your crime efforts.

Mr. Callahan: Certainly, I consider it to be of such monumental proportions that I inquired this morning whether there has been any consideration given to adopting a page out of Mr. Reagan's book and making it a matter of zero tolerance. If a truck is found to have goods that it is smuggling into the country improperly or trying to avoid taxation, they lose

their truck. What I would like to ask you is, has anything been considered in that vein?

Mr. Russell: Yes, but we do not feel necessarily that the business of arming ourselves with tougher penalties is the solution. Let me refer back to something I said before, that these things occur in stages and waves. There are very distinct periods. You can certainly see this in the tobacco tax, again. You said it has been going on for long periods of time. We do not know that, nor does the Provincial Auditor.

It is our view that this began to emerge, to become recognizable somewhere in late 1986. We began to detect signals of curious movements of fuel. We call it the Grand Island switch. There is stuff being moved over from Grand Island and coming back immediately.

Before that, our efforts were very much concerned with what then appeared to be the largest area of evasion, particularly in diesel fuel, and that was when we introduced coloration. Then there was a fairly long lead into that equation.

Mr. Callahan: When was that introduced, the coloration?

Mr. Russell: That was 1982.

Mr. Callahan: You say the problem arose in 1986. It must have arisen in 1982 if you—

Mr. Russell: That was a different problem at that time, sir. At that time, the primary problem that emerged and that we moved to confront was simply the use of tax-free fuels, supposedly for off-highway purposes, used on highways in Ontario. Overwhelmingly, that was where we saw the problem to be. We introduced coloration in the province in 1982 and I think we were the first province to do so. Were we not, Mr. Rowsell?

Mr. Rowsell: No, we were not the first.

Mr. Russell: Almost the first province to do it. Anyway, even there again, there was a long lead-in before we could convince the government of the day, and indeed the Legislature, that we could get to the point where we would require all farmers to start the coloration of their fuels and so on, and all the people who used fuels for off-highway purposes to start to colour, maintain two sets of tanks and all that sort of stuff.

We went through a series of devices, first involving very elaborate information reporting systems, the idea of registering everybody in the conceivable stream of the movement of fuels. Again, it was extremely elaborate and not very effective. It was on the basis of this that we then finally said: "Right. Go to colouration." Generally, we thought that by about 1985 we had stabilized that system. The use of tax-free, off-highway fuel on the highways ceased to be any significant problem at all.

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It was in about 1986 or 1987 that we began to detect this business of the movement of fuels; first of all, just simply the bringing in of fuels over the border points, where fuel was being brought into Ontario and Quebec and

the shippers were simply declaring the fuel was for nontaxable purposes and the federal border agents were sort of waving them through, almost.

We began to work on that in early 1987. We started a process in which the deputy minister at Revenue Canada, Customs and Excise and myself and the deputy minister at Revenue Quebec began to meet on a quarterly basis to see if we could come to grips with this issue.

We achieved what we believed to have been the first step to the solution of the sort of problem we have been talking about today, and that is when we persuaded the federal government to use dye stock at border points. They came to us, for example, to one of our staff, and asked, "How do we tell the difference between diesel fuel and gasoline fuel, and fuel that is destined for taxpayers and fuel that is destined for nontaxpayers?"

Good luck. Our employee noticed some sort of situation and said: "Of course, we don't. You can't. You cannot make that type of distinction at a border point for taxable purposes. The question is, why would you bother?" "What do you mean?" He said: "Use Ontario dye. Ask people what it is to be used for. If they say it is to be used for a nontaxable purpose, invite them to drop the capsule or the cocktail into the mix and you've got it."

When that was implemented, I think it was late 1987. By the way, we provided the dye stock. We provided the staff to train federal customs and excise, demonstrated the use of this stuff with certain precautions and the procedures that could go on and the use of the stuff safely. We did that and within a matter of days, and certainly within a matter of a week or two, the amount of fuel coming over declared to be for nontaxable use in Ontario plummeted by 90 per cent. In other words, once we had established, in this case with the feds, a declared ability to do something, it dried up. Similar results were recorded also in Quebec.

This brings us to exactly the sort of problem we have now and how we deal with it. By dyeing this fuel coming in at the border in that way we looked after the federal problem just fine. It was what people declared. The fuel was for taxable purposes. Bang, taxes were paid or security was offered and so on.

Through long practice and some legislative weaknesses, the federal government has traditionally refused to accept or to administer our taxes at the border point. The most obvious places where you see this is at the customs halls in the airports.

Interjection: Do they yet?

Mr. Russell: Do they yet collect Ontario retail sales tax? I do not believe they do.

In any event, what they did agree to do, though, was to provide us with signals or notices of trucks moving through, taxable purposes, point of destination and so on. So they gave us a paper trail. It was up to us, then, to move out into the economy and find those shipments again and tax them, the problem being that a lot of the addresses and a lot of the information was fictitious. We would get to places that did not exist.

I think that is the state we were at when the Provincial Auditor's

people came in. We were indeed assembling these signals that were beginning to demonstrate that this paper trail process, ex-post follow-up, was not adequate.

We had anticipated this. As part of the effort in the first step to get the feds set up, in my meetings with my counterparts, I said we must face the point that eventually we must see if we can look after the provinces. That means an administration of a provincial tax at border points. That has gone through a considerable amount of discussion. For a fairly long period of time, we were getting pretty encouraging signals that the feds would do this. There were some details to be worked out in terms of what compensation we might provide, whether in fact we would move staff in to assist or whatever—the administrative details and so on. It was looking fairly encouraging.

I will come back to a bit of a setback we seem to have encountered now on that front, but it does bring us to the stage I talked about in my introductory remarks. I brought up the point of doing a series of things.

The Provincial Auditor in fact confirms our intention of trying to establish collection of our tax at border points. The auditor also notes there is another methodology that would be involved, with registration. It is simply a system whereby if you import fuels into Ontario, you should be registered; capable in other words of bonding and so on. If you are not, then you put up security or you pay cash on the barrel as you come in. The auditor does say here in his report that he regards this to be an alternative device. We see them rather as parallel devices. We would want registration, as well as that border point collection capacity. I do not think it matters an awful lot.

Mr. Chairman: You say you have completed the negotiations now and they will collect it for you at border points? Is that what you are saying?

Mr. Russell: No, I was going to come back to that.

Mr. Chairman: Sorry.

Mr. Adams: Could I just follow up on registration? Even though you do not think registration is that significant, there is movement on legislating amendments in connection with registration. Is that right?

Mr. Russell: Yes. We are in the process of preparing new legislation that will give us the capacity to register and to have our taxes collected at border points. It will arm us with the types of powers we need to make good contracts with the feds and to make the requirement to be registered in order to import supplies into Ontario defensible in court, and we are going to challenge. At the present time, we do not have those powers, so we will need legislation.

That legislation is in train and we rather expect and hope that we can get something moving on that in the fall. It is very largely a scheduling problem. It might be delayed by this other, what I hope is going to be a fairly short-term setback on the matter with the feds in getting them to collect our tax.

More recently, our colleagues in customs and excise, who have been extremely co-operative through the piece indicated to us that they might not be able to proceed with that because this issue was going to somehow or other be considered as part of the larger question of the establishment of a national sales tax.

Mr. Chairman: Mr. Callahan, have you completed?

Mr. Callahan: No, I have just two more questions.

Mr. Russell: At that point, it goes to Treasury, to deal with finance.

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Mr. Callahan: You have addressed the importing. Has there been any consideration given to collecting tax from the trucker or company that comes and says: "I'm buying this gas. It's tax exempt because it's fuel oil," or it is heating oil, or it is diesel, and its being paid back to them at such time as they provide proof they have in fact delivered it in a nontaxable situation?

Mr. Russell: Yes. We have those sorts of arrangements in several of our taxes now. Generally, large taxpayers or taxpayers who are known to us with very good compliance records and so on are allowed certain privileges of moving materials through and accounting and paying taxes at certain convenient periods.

Mr. Callahan: I was not talking about delays.

Mr. Russell: The ones who do not fit that category, the occasional importer or indeed somebody who has just decided to move through Ontario—Maybe there is some sort of storm or whatever in the United States and he decides to move the stuff through us. He is unknown to us, he does not have any particular record; it would involve a system of paying.

Mr. Callahan: No, I am talking about the exporter who purchases fuel oil or heating oil or diesel, which I understand are nontaxable. What I am asking is if there anything in the works to require them to post a bond or pay tax until they can produce proof that they have in fact delivered it to a facility or a use that is nontaxable?

Mr. Russell: Somewhere where somebody else has levied a tax; is that what you mean?

Mr. Callahan: No. I want to see the money upfront so that if they try to—

Mr. Russell: That we would tax and keep the money until they proved to us that they have paid tax to another jurisdiction.

Mr. Callahan: That is right. You would place the onus on them to—

Mr. Russell: Derek, would you like to explain how this would work in the reverse situation?

Mr. Rowsell: You have to distinguish between gas and diesel fuel. Diesel fuel is essentially indistinguishable from heating oil, and that is where the problem arises.

Mr. Callahan: That is where you put the dye in.

Mr. Rowsell: You put the dye in the heating oil or diesel fuel that is going to be used off-highway by a farmer, an industry or that kind of thing.

As far as diesel fuel is concerned, if they buy coloured diesel fuel, they can quite properly not pay any tax at the place of purchase. Coloured diesel fuel is not a taxable product. Therefore, through our inspection system, if that were converted for use on the highways, then that would be detected on inspection. Inspection actually involves dipping the tanks and testing to see whether or not that fuel is coloured.

There is nothing to stop someone buying coloured diesel fuel and exporting it. It means he does not pay any tax at his point of purchase, and therefore it is a very fast thing for him to do. It is a very fast event. There is no prohibition on the use of coloured diesel fuel on the highways in the United States, for example, once it is exported, bearing in mind that the taxability of diesel fuel, like gasoline, depends on where it is used and what it is used for. Therefore, if that fuel is exported and used outside Ontario, there is no tax obligation under any circumstances.

Bear in mind that our collectors under both these fuels are essentially the major oil companies. We have no evidence whatsoever, anywhere, any time, that the major oil companies are involved in any of these schemes. If they export on their own account, they simply declare that to us as exported fuel in their returns, which are subject to audit later on in the ordinary course.

If they are not a collector and we do not have bonds and they do not file regularly, then they have two ways of doing it. They can either buy the coloured stuff and take it over the border, or they can pay tax at the point of purchase and get it back upon submission of proof, one of the parts of proof being the tax paid in the other jurisdiction. Or they can get what is called a single exemption certificate, which enables them to pick it up with full knowledge and full declaration of what is happening to us. We give them a single exemption certificate and then watch for it coming in on their returns. So there are three ways in which they can export.

Mr. Callahan: Why would you not do it that way on all purchases? We have heard of trucks that get two things. First, they get the dyed fuel or there is a pail put in the right place and there is no dye put in it at all or they distribute it here in Ontario without paying any tax at all. They send a truck across the border with coloured water which comes back in and that triggers the mechanism of the paper chase. Why would you not eliminate all that by requiring of them the same thing you have said you require of your best customers, the large oil companies? Require them to either deposit the tax and get it back when they have proved to you they have sold it or distributed it in a tax-free environment, rather than just let them leave and go and wave goodbye to them and then try to find that numbered company in some search of the records. It does not make any sense to me.

Mr. Rowsell: It does not work quite that way. Those to whom we issue single exemption certificates are companies we know. They build a record with us. These are not fly-by-nighters that we do not know. The major oil companies, by the way, do not in fact pay tax up front; they export on their own account and account to us for that.

We must bear in mind, and I think it has to be borne in mind throughout, that we are also talking about a considerable quantity of legitimate movement of fuel. I think the design of any good tax system must have built into it the fact that we recognize we do not want to disturb or in any way impede the ordinary movement of fuels by legitimate people for a handful of people who try to beat the system, albeit the dollars are large.

Mr. Callahan: How are you impeding them?

Mr. Rowsell: You are impeding them by cash flow. If you required every—

Mr. Callahan: You do not need cash. You could have a letter of credit or a bond.

Mr. Rowsell: It still amounts to money. It still has to be supported in some way; and it would be, according to what you are saying, for every transaction. Fuel that goes into, for example, the United States is not sold immediately in all cases. It frequently sits somewhere. It will ultimately be purchased, but under that system you would be requiring that the tax be put right up front in all cases.

Mr. Callahan: No, a bond. They do not pay the full amount for a bond. A bond can be had for a percentage of the amount. With all due respect, you are talking about saving the inconvenience to the taxpayer. If we are talking about \$100 million or \$120 million of lost revenue, I think it is worth the inconvenience. I am sure the Department of National Revenue interferes with my activities every day, as it does with everybody else's. They want you to file every piece of paper to back up what you do. I think we should be doing that.

Mr. Rowsell: With respect, I do not think we are talking about \$100 million and I think the auditor made that point clear. I think that reference to \$100 million was because the auditor could not determine an accurate number with any more precision than we could. What he is saying is that if everything that went out came back and was not taxed, we would be talking about \$100 million. That is the top, that is the ceiling, but that is by no means the extent of evasion in Ontario. We know there is a significant amount of legitimate traffic.

Mr. Chairman: Mr. Russell, before I move on to Mr. Villeneuve, I would like to have clarified some rather long answers you gave to Mr. Callahan, just to make sure we understand exactly what your position is. Am I correct that you said that on the fuel coming across the border, where the feds are able to collect and where at the present time you are not able to collect, you are at some time bringing forward legislation—you did not specify when that legislation would be coming forward; it is now in a drafting stage—that would enable you, subject to the approval of the feds, to have them collect the tax along with their own tax?

Also, that the legislation would include some kind of licensing system, but not a bonding system, for the import companies and that even after that legislation is introduced and, we assume, passed by this House, you are not convinced that the feds will at that point in time enable you to proceed with their portion of implementing it, namely, their collecting the tax for you? Is that a correct summary of what your testimony has been?

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Mr. Russell: For the most part. I believe I did say we were scheduling the next session for the fall, and that we would be attempting to arm ourselves in that legislation with a series of capacities.

The first one we think is important is the matter of registration. I think as a subset of that there could be bonding arrangements or credit

arrangements or whatever, as long as one way or another they were substantial.

We are also going to make sure we have the ability to establish with the feds collection of our tax at their border points.

There was another element. Well, I think that is essentially it.

Mr. Chairman: I think what Mr. Callahan was pointing out to you on a different matter was that there is a heck of a difference between registering and bonding. Somebody can be registered and then just form another company and disappear on you and there is not a thing you can do about it, whereas with bonding at least you have something to deal with.

Mr. Russell: We are pretty experienced in the use of registration. In the area of tobacco tax, we do not. Can you explain how that would work?

Mr. Rowsell: The system we would propose would be in a couple of parts. First, we would require that any importer or exporter be registered with the ministry. This would mean he would be required to file regular returns and pay tax by a due date, and that as a condition of registration he would be required to post a bond.

If that particular importer shows up at the border, it will be clear to whoever is at the border that the man is registered and he would simply be waved through. The process we have in place now, which I would not propose we do away with, would mean we would get documentation by way of cargo control documents from the federal inspectors at the border to tell us that it had in fact come in. That would be a cross-check system once the return was filed.

Through that system, if somebody arrived at the border and was not registered, we would provide in the legislation that he has an option. He can pay the tax immediately to the person at the border—the federal government—or he simply gets in touch with the ministry and tries to get some fast track to registration.

It is almost a complete system, but what it would do—and I think the deputy pointed this out earlier—is simply put an end to that kind of activity, because there would be no advantage to somebody arriving at the border and having to pay tax immediately when the alternative of registration would probably give him until, say, the middle of the following month, which is the ordinary terms of payment of tax to the province. It would simply, in my view, put an end to the practice.

Mr. Villeneuve: Effectively, what you have told us, I believe, is that the major oil companies are exempt from paying the tax up front. Would that include any wholesale distributor with a marine terminal or a pipeline facility?

Mr. Rowsell: No. Most of the major oil companies of course have those facilities.

Mr. Villeneuve: Other people as well.

Mr. Rowsell: Yes. What you are probably thinking of are those we authorize to dye diesel fuel, the dyeing that distinguishes between taxable or nontaxable product, and that that has to be done at the terminal level. It could be done at the refinery level, but if you think of levels—the refinery,

the terminal and then the bulk plant and the more retail level—the highest point we could get it when it was designed was at the terminal level.

The reason is that tremendous quantities go through; the distinction is then made whether it is taxable or not. If it is to be nontaxable, it is dyed. It is all dyed with automatic injection equipment, which is tested and the inspectors of the branch go around periodically and check to see that all the seals and so forth are intact. So that fuel I was talking about, that ordinarily is exported, would go directly from the refinery or, at the direction of the refinery, from a refinery-owned terminal.

Mr. Villeneuve: I have been advised that the people who are exempt from the tax, either people with marine terminals or pipeline facilities, are also treated in a different fashion if one of the people they supply should go bankrupt. They can recover the tax from you, whereas a wholesale distributor without the marine facilities or who buys his fuel coloured or uncoloured, does not have that right. Is that correct?

Mr. Rowsell: That is correct.

Mr. Villeneuve: Why would that be?

Mr. Rowsell: The reason is that the second person you are speaking about is not a collector. He is not bonded. He buys from a collector and he pays tax to that collector in the way Mr. Callahan would like. We have under consideration now a complete rewrite of the Fuel Tax Act. One of the provisions proposed in there is that there would be a second tier of collectors who, by reason of their reputation—the fact that we know them and their bonding and so forth—would have those kinds of provisions, but they are not there yet.

Mr. Villeneuve: Would they would be treated, then, the same as the one with marine terminal or pipeline facilities? They would be able to recover in the event of one of their—

Mr. Rowsell: Yes.

Mr. Villeneuve: When we speak of inspection, the dipping of the truck tanks to see if indeed they have coloured fuel or have had coloured fuel or are going illegally, how many people do you have doing that?

Mr. Rowsell: We have 23-plus; that is, 23 on the staff of the branch Mr. Archer looked at. In addition to that, through arrangements we have made with the Ministry of Transportation, their inspectors at weigh scales are also fully trained in checking for coloured fuel. I must say that not a great deal of it goes on, but it is there to be done. They are fully trained. I think when that arrangement was made three or four years ago, it added about 260 extra people watching for registration of trucks and the ability to dip tanks.

Mr. Villeneuve: You are saying that there are not that many charges from your ministry or from the Ministry of the Solicitor General for illegal fuel on our highways?

Mr. Rowsell: There are not a great deal, no; there are very few. It is too easy to detect. The process probably takes about 20 minutes. The tank is goosed. There is a little vial in which the fuel is shaken up and it either

comes with a red precipitate or it does not. It is very instant. If there is a red precipitate, they take another one and send it to the lab.

Mr. Villeneuve: In 1982, when you initially brought in the dyeing of the fuel for off-road use, did you notice a substantial increase in revenues to the ministry from the previous year because of fuel that was probably bootlegged?

Mr. Rowsell: We did. At that time we thought the most we could get, bearing in mind that it was a reasonably rough estimate, was about \$25 million we were perhaps losing. We are satisfied that since the coloured fuel program was put in, we have recovered that and we have sustained that.

Mr. Villeneuve: By 1986, holes were being found in the legislation, and that is when the alarm went again?

Mr. Rowsell: That was when the export stuff started. It is not an increase in the amount of diesel fuel being used on Ontario's roads, because before colour, the biggest scam was simply for a purchaser to go to a terminal, for example, and say, "Fill it up with heating oil," which was exempt. But then, because it was indistinguishable, it would be used on the road. We had no way at that point of knowing whether it was heating oil. We would be in a paper chase to see what he had bought, go back to the source and work it back. It was a very time-consuming, difficult process.

The coloured fuel, like some of these other remedies we are talking about, put an immediate end to that. It could not be done any more, so the revenue increases were very evident and very immediate.

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Mr. Chairman: Thank you. Another border MPP who no doubt has a lot questions: the member for Sault Ste. Marie.

Mr. Morin-Strom: We have heard from the auditor that in terms of fuel coming in, \$4.6 million was identified as owing, and you have collected only \$400,000 of that. I believe that was over a nine-month period, which would indicate on an annual basis an even higher figure. What have you done to collect the balance of that \$4.6 million?

Mr. Rowsell: The procedure we have in the ministry is that when we get cargo control documents from the federal government to say that a load of fuel has come in, they will show the name and address of the purchaser, who would ordinarily be the person liable for the tax. We would wait until the return was due, bearing in mind that many of these returns come in. We are only talking about a small number that do not; most of the returns come in and they declare the product. I think the returns are due 15 days into the following month. If they do not come in, then we attempt to get in touch with them, either by telephone or by mail or some other means. If that produces no response or no result, then they are automatically forwarded to the special investigations branch.

The special investigations branch then, through whatever other means it can employ, will try to make contact with the person who was on those cargo control documents. We had one, for example, which simply said "Highway 48, Ontario." That was the address. There was no way of getting in touch with them. Special investigations, through other means, has a number of these companies and a number of these individuals now under investigation and is

hopeful it will indeed make contact with them and make some collection on the taxes.

Mr. Morin-Strom: So how much of the \$4.2 million balance has been collected?

Mr. Rowsell: I do not know the answer to that.

Mr. Morin-Strom: Any?

Mr. Rowsell: I just do not know.

Mr. Moxley: It is very little.

Mr. Russell: It is probably exactly as cited here.

Mr. Morin-Strom: In terms of what is happening right now, over the next nine months there is going to be another \$4.6 million uncollected. Is there going to be very little of that collected again? Have you done anything to solve the problem?

Mr. Russell: I think we just spent a considerable amount of time explaining what we propose to do.

Mr. Morin-Strom: When the auditor does the same kind of check over the next nine months, are we going to hear there is another \$4.6 million that has not been collected, or do you know?

Mr. Russell: That is very likely. If the auditor sends his people in and asks those questions again as he did before, we will give him much the same answers, I think, unless nothing happens.

Mr. Morin-Strom: So you have not done anything to solve the problem?

Mr. Russell: Yes, we are doing things to solve the problem.

Mr. Morin-Strom: I just asked you if we will we have another \$4.6 million uncollected over the next nine months.

Mr. Russell: Clearly, if we are not successful in bringing in the legislation, if we are not successful in making additional arrangements with the federal authorities, yes, the situation will continue.

Mr. Morin-Strom: Okay. On the potential \$100-million loss on exports, do you have any indication about whether it is closer to zero or at the \$100-million potential? The auditor has said it could be anywhere from zero to \$100 million. Do you have any indication that it is a small percentage of the \$100 million or large percentage of the \$100 million?

Mr. Russell: No.

Mr. Morin-Strom: So we might as well assume most of it is in fact a loss, that \$100 million.

Mr. Russell: Most of what? We have not established the veracity or the truth of it. The auditor has said to us that at maximum conditions, it would be \$100 million. I do not believe he said this was a measure of the extent of it. Perhaps if the auditor would give us his measure of the extent

of it, I will give you a measure of whether I think it is a portion of that. Of the \$100 million, I do not think anybody has any way of relating to that. If you talk to the federal people, they will say they do not believe it is much more than about \$10 million or \$15 million.

Mr. Chairman: It is not their money, though. Why would they know?

Mr. Russell: They are probably in as good a position to make an educated assessment as anybody else. Again, that is it. I am afraid we cannot tell you whether it is \$15 million, \$30 million, \$20 million or \$70 million. We are saying that we recognize it to have been a problem. It is a developing problem.

I think I said that we agreed with the auditor's assessment of the nature of the problem. That is not surprising, because the auditor's people very largely based their assessment of the nature of the problem on material and reports which we provided. We do not disagree with his prescriptions of what has to be done. Again, I think the auditor will agree that these measures were in development, and certainly in active development internally, at the time the audit was taking place. We were not surprised on either account.

Whether we can move to solve this issue quickly and when, we cannot say. I did say we have high hopes of being able to get something in place in the fall. I am afraid that it is the nature of the business, as I explained in my opening remarks, that at any one time you can come in and say that a system is sort of betwixt and between the different generations of tax avoidance. The past ones have gone. We do not have a problem of the use of off-highway fuel within the province any more. It is down to very minimal proportions. Exactly as we solved that problem, it became an interprovincial problem. We then moved to establish a series of agreements and devices with other provinces. Those have been in place for a number of years now, and I believe the provinces have, all together, established a pretty effective way of controlling interprovincial movements of fuel. Exactly as we closed that source of evasion off, it has gone international. We are at the point now that we are attempting to move to do something about it.

We understand what the problem is, and I think we know what to do; and we will get it done and in place as soon as we can. Not the least of our problems is the question of how and when we can get legislation through the Legislature. It is not easy. How long did it take us for the last one we had, the retail sales tax? It took us something like a year after the budget to finally get it through. I am not saying anything other than that. It seems to take that long from time to time. We do not control when we can move these pieces through the Legislature.

Mr. Chairman: With respect, you said the draft legislation will be ready in September. You had this report in June 1988. That means it has taken you about 15 months to go from having the auditor's report and recommendations to be at a stage of draft legislation. Why has it taken so long? It may take another six months to get it through the House. I do not know what the government's priorities are, but it seems like an awfully long time to respond to a serious situation.

Mr. Russell: It is a serious situation, and we recognize it probably to be worsening. I have described how we could spend a considerable amount of time attempting to get a structure in place with Ottawa on how we can have one

part of this scheme nailed down with the agreement for it to collect our taxes at its border points. It has taken that time; there is no doubt about that.

Mr. Chairman: Assuming you get the legislation through by December—it comes in in the fall and you manage to get it through—I do not know the complications of it. It may well be that some of the companies may want hearings or something or other. Supposing it was possible to get it through by December, at that time would you have to start negotiating again with the feds to get them to co-operate? I guess what I am trying to get at is when this stops. What is your prediction of when the legislation might kick in?

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Mr. Russell: This fall.

Mr. Chairman: You introduce the bill this fall. That does not mean you will get it through before—Christmas is probably a reasonable timetable if the House reconvenes in October.

Mr. Russell: Okay.

Mr. Chairman: So you get it through by Christmas, but at that point you still have to get the mechanism set up with the federal government for it to kick in its mechanism to assist you. It is not this fall that it kicks in; it is this fall that you get a bill before the House, hopefully.

Mr. Russell: No, I think we would know before then whether we can expect Revenue Canada or customs and excise to move to implement this stage pending the establishment of a national sales tax. One of the things we have now resolved is that we are just going to go ahead with it in the hope that perhaps we can have that capacity in place or will be able to activate it as and when it occurs. We are certainly moving, though, on the question of registration. That is where we feel the main gains are to be made. If that works after one or two appearances at the border points, we would expect that particular channel to dry up very rapidly anyway.

Mr. Chairman: If the feds are not co-operative or cannot get their act together with you in a reasonable period of time, would you be prepared to take a chance on that constitutional court challenge and try to implement it by putting your own people at the border to in some way try to collect it there?

Mr. Russell: I do not know that it is much of a constitutional problem.

Mr. Chairman: You do not have a right to collect tax before sales time, do you, before the product is sold, technically? You could be challenged on that.

Mr. Russell: Having said that, of course it is always a problem. We are constantly being challenged, I suppose, in both the area of fuels and the area of tobacco. We do have a system of tax in those areas which does not apply at the final retail area. One can argue, and people do argue, that therefore it is not direct taxation; it becomes indirect taxation. Generally speaking, we have been successful in arguing those cases as they occur, and it is a fairly regular part of the agenda of our lawyers. In that sense, I suppose we would risk an attempt to put people in place.

Mr. Chairman: Mr. Adams, did you have more questions?

Mr. Adams: Are we okay for time?

Mr. Chairman: I do not have anyone else on the list.

Mr. Morin-Strom: I had one more.

Mr. Chairman: I thought you were finished. Sorry.

Mr. Adams: Do we have time?

Mr. Chairman: Yes, you are next, but Karl has indicated he was not finished. I thought he was.

Mr. Morin-Strom: On the extent of the \$100-million potential loss, I guess what we heard before from the auditor were examples of evidence. You say you have not heard any evidence of whether it is zero, \$100 million or in between, but we had heard the example of a two-day blitz where they had done intensive testing of tanker trucks crossing the border to see what percentage of the trucks were carrying dyed fuel across the border.

The figure we heard was that 14 out of 100 were carrying dyed fuel. The auditor was not able to get indications of whether those 14 were spread out evenly over those couple of days or whether those were the first 14 trucks or very early in the process; we heard the suggestion that with the kind of communication in the transport industry, CB communications, the transport of dyed fuel may easily have dried up within the first couple of hours. It may not have been 14 per cent; it may have been much higher than that. The movement of dyed fuel might have stopped; it could have been much higher than 14 per cent.

As well, one test indicated levels of dye at 27 times a single portion, which means that vehicle may have gone back and forth 27 times. If it is a systematic and organized way of cheating the system and you have the same vehicles going back and forth, even if it is 14 per cent but they are going around in circles a tremendous number of times, they could be representing well over 50 per cent of the total volume of fuel crossing the border.

That kind of evidence would indicate that the potential loss could well be in the upper part of the \$100-million range, not down in this 10 to 15 per cent you have from the federal government.

Mr. Russell: It is somewhat of a catch-22 situation here. As I understood what the auditor said, he was not proposing this as a measure or as an extrapolation or an assembly of these pieces of evidence. It was sort of an offered measure of the total potential of this thing. I was asked: Do I substantiate or do I agree with the \$100 million or whatever? I said I do not know, but I do agree with the auditor that it is a serious matter, and that is all. Is that acceptable?

You say we did not see the evidence. We conducted the blitzes. At the time the auditor made his examination we had conducted these blitzes and certainly we had come to a conclusion that again this was a serious emerging problem; whatever it is at one point, it is destined to grow, just as we had seen other forms of evasion, interprovincial evasion devices, grow progressively. Certainly we would expect this situation to escalate. Is that

acceptable? I agree it is a serious problem; I just do not know how to measure it. I do believe the auditor said he did not either.

Mr. Morin-Strom: Finally, I have one question of local interest. In my home community, Sault Ste. Marie, gasoline prices have been a major issue of concern over recent years, particularly because we live in a border community and the price of gasoline is so much higher on the Ontario side versus the Michigan side. For much of this period, my understanding has been that the difference in the gasoline prices, while largely being due to the differences in tax rates, in fact were even greater than the differences in tax rates.

We have the situation where the gasoline that is coming into our community from refineries in southern Ontario is being brought up by vessel and put into tanks on the Ontario side of the river. It is well known. In fact, I have talked to truckers who have driven the tanker trucks, who have picked up the gasoline from the tanks on the Canadian side of the river and have been delivering it to the American side of the river for sale in the United States. What would be the rationale for Canadian gasoline being brought into the United States to be sold at considerably lower prices than on the Canadian side of the river?

1530

Mr. Russell: After allowance for federal and provincial taxes being deducted?

Mr. Morin-Strom: Yes, my understanding is that even after the allowance for the tax it is still being sold at a lower price.

Mr. Russell: I really do not know. This sort of thing seems to occur. In other respects, how does one explain the outbreak of price wars suddenly in a particular locality where discounting seems to be very ferocious and is certainly not sustained or does not seem to be sustainable in terms of normal costs of purchase, production and distribution? Beyond that I do not know whether I could offer—

Mr. Morin-Strom: Could one of the potential solutions be to stop the import and export of gasoline, home heating fuel, diesel fuels by wholesalers and retailers and do as we do in the auto industry: restrict it to the major integrated oil companies to handle the cross-border flows and not let these small players and fly-by-night operators get into the business with the potential for the tax evader?

Mr. Russell: I suppose it has to be said that the smaller the number of people with whom we would have to deal, the more convenient it would be and the more effective would be the controls we have. However, that does involve, it seems to me, a fairly significant intervention into the nature of that industry and in effect the locking out of potentially large numbers of independent operators, many of whom probably perform a very useful function: arbitraging and discipline, price agreements or the behaviours of the large firms. If you are suggesting it is a solution that would be more effective, I suppose we would have to say yes. I am not sure we would stand much chance of getting a solution like that through.

Mr. Chairman: Members of the committee, in view of the time: We have covered fairly extensively and I think have a fairly good idea of the import side of this problem. I wonder if members of the committee might like to glance at the auditor's recommendation 2 as well as—

Mr. Adams: I think that is a good idea.

Mr. Chairman: Would you let me finish? I am trying to make the suggestion to you; you will not know what the suggestion is until you listen to me.

Mr. Adams: Sorry, Mr. Chairman.

Mr. Chairman: Also look at some of the suggestions made by our researcher on page 6, because while we have covered some of those items, I do not think we have fleshed them out in great enough detail. As a suggestion to the committee, you might look at that whole export side, which I do not think we have covered. I do not know the answers to all of the issues there.

Mr. Adams: I think it is a good idea. What I was going to do was try to summarize where we had got on recommendation 1. I do not think it would take very long and I think it would be useful, because we have had varying responses.

Before I do that, Mr. Russell, just on this question of price, because as I think you in your ministry know we all get letters about the fluctuations of gas price and it is always blamed on the tax. In Peterborough I would say the normal range of gas prices is about 10 cents. It goes from somewhere just below 40 cents to somewhere just below 50 cents. That is 25 per cent of the lowest price. That is the same order of magnitude as the provincial tax, is it not? The provincial tax is roughly 10 cents.

Just for the record, there is no increase in the tax, is there, when the price is almost 50 cents? The province gets the same amount whether it is being sold at the pump for 50 cents or for 40 cents. Those are what I suppose you might call price wars, but there are occasions, of course, when it drops even lower than that. The order of magnitude of normal variation is about the level of provincial tax.

Mr. Russell: Those types of changes, those types of differences and discrepancy swings and such cannot be explained by changes in tax. If anything, taxation in that sense is the most stable item, at least from one year to another.

Mr. Adams: I understand that. That is okay; that is fine.

This recommendation 1 the chairman referred to is the auditor's recommendation that to reduce loss of tax revenue, the ministry should negotiate with the federal government to have federal customs officers collect provincial taxes at the border; and as an alternative, the ministry should pursue the registration of fuel importers. We have in fact, as you said, been discussing that.

Let me say, first, that I found your initial presentation very revealing: your point about the way the regulations change and the way methods of evasion change. I found that very revealing. It was something we had not received in our briefing. From your point of view I well understand now that this is one wave in all sorts of waves going on out there. I was impressed by that.

I also had a chance, while my colleagues were questioning you, to look at this report we received here. I was quite impressed by the scale and complexity of your ministry: the 20 statutory programs, the millions of people

and organizations and what have you that you deal with. I could only glance, of course, at your new measures, things this year, and I see several of them: dyed fuel, things like this. I can well see the scale of this thing we are looking at, in your eyes.

Just going back to that first recommendation so we can summarize—

Mr. Chairman: I thought I had already done that.

Mr. Adams: I thought you thought you had as well, Mr. Chairman. What is the minister's response to the auditor's recommendations to address uncollected taxes and, second, the registration of fuel importers?

Mr. Chairman: Some people think there are too many lawyers on the committees. I sometimes think there are too many university professors. I was looking at Mr. Morin-Strom when I said that. I would not want you to think I was talking about you, Mr. Adams.

Mr. Adams: Your response is that you are considering those things; in terms of legislative amendment, you are looking at some in the fall or later in the year; that sort of thing. That is it, basically, is it not, that you are actively working on it and proceeding towards it?

Mr. Russell: We are, and, as I suggested, we were at the time the audit was conducted.

Mr. Chairman: The legislation will be introduced in October, and it will be through in December—

Mr. Adams: Whatever. Later in the year.

Mr. Chairman: —and we will be in good shape.

Mr. Russell: You could also say that in effect we get a window of opportunity just about every fall to do these types of administrative structural changes. The spring season is taken up with any budget measures. If there are tax changes in the budget, that is when we get those operating, then we look to the possibility of getting a slot in the fall. We will get a slot in the fall to the extent to which we are through the backlog of budget items. Since this recommendation was made or since this audit was made and indeed before that, there was no chance at all of being able to move in that last period, the fall of 1988. With the run into the budget, the backlogging of that—

Mr. Callahan: And a few other things.

Mr. Russell: —and other things, the scheduling for the fall was dead. Gentlemen, I do not control your scheduling.

Mr. Chairman: But you did not have a draft in the fall of 1988, did you? So you could not have proceeded anyway, because you did not have a bill in the fall of 1988, did you?

Mr. Russell: We would have had the specifications and the designs, but we do not go around—

Mr. Callahan: You are demonstrating your partisanship, Mr. Chairman, which is not entirely—

Mr. Chairman: I am simply questioning. I can appreciate the difficulty you have in getting legislation through—I have had ministers who have told me this—but you did not have the bill ready in 1988. You could not have proceeded then, so you are proceeding in the fall of this year.

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Mr. Russell: If we had had the opportunity, we would have produced a bill and we would have proceeded. I knew there was not a chance, so we spent the time in the meantime trying to work the feds into this system. The precondition for being able to get them to deal with our problem was to get the colouring done at the border point which solved their problem first. I think this fall is our next opportunity, in fact, the first opportunity we have had since we have been able to size up and come to grips with this issue.

Mr. Callahan: What colour dye is it, blue or red?

Mr. Adams: I think the deputy is explaining. Can I go on?

Mr. Chairman: Mr. Callahan, I am sure you would be aware that that would be covered under regulations and is not standard as part of the bill.

Mr. Adams: There is actually the awareness of the coloured dye thing in here, Bob. You can read it.

Can I just go on? I appreciated the deputy's response and I was pleased with what he was saying and the way it was bringing together what he had said before.

On the question of the federal government and its co-operation with you in this complex matter, I can understand that. You did make a point about the proposed federal sales tax and that is an added complication. To what extent do you see this federal sales tax slowing down the closing of this loophole the auditor has recognized?

Mr. Russell: Revenue Canada, customs and excise, who are our counterparts on this front, along with Quebec, have been extremely co-operative. We have a long history of very good co-operation among the three of us. They have been very co-operative. It was only recently, in fact, at the last meeting, that the signal was made that maybe they would not be able to proceed to accommodate us as they thought they would.

I said, "Ultimately, we probably will not be able to accept that." We asked them to think about it again deeply. More recently, it has been confirmed to us by the people in that ministry that, yes, it is now in the hands of the Department of Finance. This is to be treated as part of the one international sales tax. As soon as we had that signal, we told the Treasurer (Mr. R. F. Nixon) and said: "Watch it. This is coming into that game. Whatever it means in the greater scheme of things, sort it out, but in the meantime, please bring any leverage to bear to break it open for us."

Even if a national sales tax came into effect and somehow or other it did affect these taxes—So far, by the way, I have not heard of the feds or the province just saying they are going to roll up these particular taxes into a national sales tax. In any case, it is going to be a couple of years before the thing moves in and we might as well be minding the market while we can in the interim.

Mr. Adams: My comment to that would be that this committee which has, of course, this special responsibility for the auditor's report, would have to be concerned with the topic at hand. We do not want this important matter to become some sort of chip in some poker game I know you are not playing but that the province is involved in.

I think it was the chairman who then went to the next point. In the event that this matter becomes complicated by this federal sales tax business, you indicated you are giving some thought to things the ministry could do independently to identify the order of magnitude of this problem and to correct it.

Mr. Russell: Yes, and that can include a continuation of periodic blitzes.

Mr. Chairman: Are there any further questions on this matter with which we are dealing, on the fuel tax system?

We can move along then to the next item, which I am sure Mr. Callahan will want to lead off, namely, the tobacco issue. I remind members of the committee that this is a nonsmoking, smoke-free committee, but none the less we will deal with this matter. I am wondering if you or your staff have any opening comments, Deputy Minister, on this issue in addition to the general comments you made at the beginning.

Mr. Russell: No. Again, as I said in my opening remarks, I think for the most part we agree with the auditor's findings, certainly his emphasis on this too being an area of serious evasion, and the recommendations he is making. I might say, too, that this tax and the way we have worked to deal with evasion is another example of this business of moving through successive stages. In the case of tobacco tax evasion, the first way this appeared as a problem was in the unlimited availability of tobacco stocks within the province.

To a large extent, that involved the leakage of tobacco stocks out of Indian reserves. Through the period of the late 1970s up to about the mid-1980s most of our efforts were spent in negotiating and very carefully putting into place arrangements by which we could control the movement of these stocks through Ontario Indian reserves without offending or violating the sort of traditional constitutional rights, treaty rights, expectations and such of the various Indian bands.

There is a rather interesting story of how that campaign was conducted. Suffice it to say that it was a very slow, patient operation; Mr. Rowsell here was in fact directly responsible for its conduct. By about 1984-85 that problem had ceased to be a major issue. Once we closed down the province itself as a source of untaxed tobacco, it then became an interprovincial issue. In effect, the natives were trading on tax differences between the provinces.

In the first instance, in those early years there were very low rates of tax in Alberta, so it was very profitable, not to try to evade Alberta tax in particular, but to pay the tax, load the tobacco up in trucks, move it into Ontario and sell it. There were the same sorts of incentives as in the fuels, high tax margins and therefore high incentives and rewards for successful evasion. It is a product which is very easily moved: it is lightweight in relation to its value and so on.

Through that period we then concentrated on constructing a series of arrangements with other provinces in which we could all together control the movement of tobacco stocks interprovincially. That began to come into effect. It began to tighten up. It was also helped by the fact that Alberta, in particular, increased its tax rates something like 300 per cent during the period and came up very much closer to us; it narrowed, in any event, that margin.

As that second source of evasion came under good control, then it became an international issue, much more sophisticated, perhaps much more organized. It involved the export, typically, of Canadian tobacco to the United States, its movement back into Indian reserves which straddle the international border or at least abut it. It is let on to those reserves by US authorities tax-free—indeed, by Canadian authorities, too, while it is on the reserve—and then it goes out of the reserves, possibly to other reserves but more typically just through middlemen. That is where we are now and that is the problem to which we are now working.

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We have been constructing a series of information agreements with states. We have one in place with New York. We have others in various states of development with other US states. These will then complement the effective arrangements we already have with other provinces.

We do believe that the primary method of correction here is to move to tobacco marking. That is sort of the ultimate measure, just as in the area of fuel evasion, the registration of everybody who is moving stuff is sort of the ultimate control device. Marking is the—

Mr. Adams: Your lips would turn purple.

Mr. Callahan: That is what happens if you smoke too much: Your lips turn purple.

Mr. Russell: Some of us are turning purple through the lack of it.

It was announced in the budget the last time around that this was going to be the policy of Ontario. The auditor recommends we go to marking. We do not disagree with that, because we were actively in the business of developing our moves towards marking at the very time he came in to do his audit and discovered—guess what?—that we were thinking of doing marking, and our plans were pretty well advanced.

It was said in that budget that marking would be introduced April 1, 1989. Well, we do not have marking yet. That is another story, why we do not have it yet.

Those are the introductory remarks.

Mr. Chairman: Thank you. I am going to ask Doug Archer to comment on this one section, if he has any comments to add.

Mr. Archer: Again, I would just provide a setting for the discussion, that is, that tobacco tax is big business. It is in the area of \$600 million to \$700 million a year. I should also mention that in this area again we concluded that overall the collection procedures of the ministry were certainly satisfactory, but out of that, we did note this one type of

situation involving the smuggling of tax-exempt exported cigarettes back into Ontario and that that particular practice was estimated to cost the province somewhere in the range of \$10 million to \$15 million a year; an amount that by itself is quite significant, but as a percentage of the total \$600 million to \$700 million may not achieve quite the level of importance.

Mr. Callahan: Mr. Russell, I would like to know. I have been smoking a long time. When did they take the stamp off these? I remember you used to have to open them with your fingernail. When did the stamp come off?

Mr. Russell: That was a federal excise tax device. I think it still exists on cut tobacco. Just a moment; I will check.

Mr. Callahan: It was even on the packages. There is a stamp on tobacco, but they had a stamp on—

Mr. Russell: It used to be. For what reason did they take it off?

Interjection: I do not know.

Mr. Callahan: When they stopped putting the stamp on, there was no way other than the plastic wrapper that goes around it that you could distinguish between buying it duty-free and buying it here. I do not even know whether tax was paid on this package of cigarettes. There is a number imprinted on it that you could maybe check: 335301. Maybe you would like to check to see if the tax was paid on that.

Mr. Russell: We would not know.

Mr. Callahan: I bought that from a retailer. It interests me, too, because I notice in an article that was provided for us written by a Fred Nix, an economist and transportation consultant, at the end of it he says, "Kelly Skalin, president of National Oil, a fuel wholesaler, put it in more graphic terms. 'I know there's people out there selling fuel at ridiculous prices. It's got to be untaxed fuel. When I lose a customer who says he's now buying for 30.5 cents a litre, I know something's up.'"

Interestingly enough, and I am not suggesting there is anything inappropriate, as I drove along Yonge Street today and saw one of these cut-rate gasoline dealers, he also sells cigarettes. One has to wonder if the next thing we know we will find Pierre Cardin and booze in there.

Mr. Russell: One-stop shopping.

Mr. Callahan: There has to be some marking on it and I am glad to see—

Mr. Chairman: You are not looking for hot cigarettes, are you?

Mr. Callahan: I have no idea. They are not funny cigarettes. They smoke normally, but I would like an answer to the history of why the stamp was taken off and when it was taken off.

Mr. Russell: First, it was a stamp for federal purposes. It said nothing about whether a provincial tax was paid. It would have been of no interest to us.

Mr. Callahan: Are there federal taxes on these cigarettes?

Mr. Russell: Oh, yes. It is a very high tax. What is it?

Miss Nicholas: We are paying everybody, Bob.

Mr. Moxley: It is virtually the same as the current Ontario tax. It is 3.84 cents per cigarette.

Mr. Callahan: That does it. If I do not like the federal budget, I am quitting smoking. That will fix them. I can probably say I have given it up now, because I know I will not like the federal budget.

So that was a federal tax and we never had anything on there?

Mr. Russell: No.

Mr. Callahan: Can you find out when that was taken off and whether at that time there was any decision made to identify it as being a tax-paid item as opposed to something that was smuggled in?

Mr. Russell: We certainly can, but again, it would have been of no significance to us.

Mr. Callahan: I remember, when I was in university, a couple of guys bringing cigarettes through the border. They threatened to impound their vehicle. I still like the zero-tolerance idea. I think we have to make it serious for people so that they do not try to beat the system.

Mr. Russell: This is something that occurs all the time, and we saw this in the matter of fuel tax evasion on importations. There are certain parts or sequences in taxes on which we share a certain common interest, and beyond that—

Mr. Callahan: Nothing.

Mr. Russell: —nothing. From the federal point of view, as long as they can define the means by which all tobacco consumed in the country is taxed, they do not care where it moves, how it is consumed and so on between and among the provinces. We do.

Mr. Callahan: How would you stop that moving from, say, Alberta, which has no retail sales tax? How would you stop the moving of that from Alberta by truckload to Ontario and its being sold? Will there be a distinctive Ontario trillium on it, or a beaver or a maple leaf or a blue jay?

Mr. Russell: We have not finalized what the design will be or the colour.

Mr. Callahan: Perhaps the packages from various provinces could be different colours, and that would change from time to time.

Mr. Russell: This is one of the reasons this has taken rather a long time. The prospect of Ontario introducing a marking system is rather daunting to the manufacturers. This is the first time they have had to start to treat, produce, handle and wrap cigarettes destined for the Ontario market in a particular way. It is going to involve costs; it is going to involve a certain amount of imposition or restriction of their flexibility in certain of their markets across the country. Beyond that, they rather suspect that if Ontario moves, pretty quickly the other provinces will start to do the same thing.

1600

We could conceivably have 11 systems of marking across the country. I suppose one would understand that that is not a pleasing prospect to them, balkanization of the market and all that sort of thing, so we have have been engaged, primarily with the Treasurer himself leading, in a very long process of discussions with the industry. The Treasurer and our minister decided that notwithstanding the target of April 1, as long as there was reason to continue discussions with the industry in search of some alternative to a particular method of marking which is more convenient and acceptable to the industry, then we would continue that process.

Mr. Callahan: Just one final question, if I could. When the manufacturer, in this case Imperial Tobacco, gets an order for X in either Ontario or some other province, I gather it buys tax-exempt. Is that right? Why could you not require them to post a bond or to make certain—I think the onus should be placed on the manufacturer to make sure the commodity gets to the market it is intended for, and then you can track it to the market.

Mr. Lupusella: You mean taxation at the source?

Mr. Callahan: Yes.

Mr. Rowsell: What happens now is that if the cigarettes are destined for the United States, for example, the obligation on the manufacturer is to ensure that they are shipped by bonded carrier and do get across the border.

Mr. Callahan: So you do not have a problem with export, then.

Mr. Rowsell: Except that they are reimported sometimes, but ordinarily there is no problem. What ordinarily happens is that the wholesale dealer within a province who is designated as a tax collector for each jurisdiction will place his order with the manufacturer. There are only three manufacturers in Canada, two in Ontario and one in Quebec. He will place his orders for the various brands and take possession of them. What he does then is send a note to the ministry every month to say all of these cigarettes went to these wholesalers, so we have a perfect cross-check system of what left the manufacturers for Ontario—destination wholesalers and we relate that to the return of the wholesaler, who says, "Yes, indeed, I got that and here's my tax amount." It is an excellent system in that sense.

Mr. Callahan: Cross-reference.

Mr. Rowsell: What we are talking about with a marking system is that if Ontario's packages had a distinctive mark, then the manufacturer would ship only those marked "Ontario" into Ontario; anything that went to Manitoba, British Columbia, Prince Edward Island or wherever would not contain our mark. It may well contain their mark. In fact, as the deputy minister suggests, they would piggyback on to what we are doing.

But then the control rests at the retail level. As the cigarettes are displayed and as they are sold, as they are possessed and marketed, they will either contain the Ontario mark or not. If they come in from PEI or from the United States, they should not bear the Ontario mark. It is a very immediate test at the retail level of whether tax has been paid on those cigarettes.

Mr. Callahan: With all that talk about cigarettes, I think I will go have one.

Miss Nicholas: I was going to ask about the stamps, too, because I remember those being opened up. I had not realized it was federal, but I did notice that at the duty-free shop you did not have them. Just for my information, is it only federal tax that is withdrawn on duty-free items?

Mr. Russell: Ontario tax would be relieved, too.

Miss Nicholas: I see, so it is a duty. I was just wondering if we were making any money out of that. I was going to ask about that and what kind of packaging idea—Bob, rightly so, suggested the loon or the beaver or a sticker or something. Has any suggestion been thrown out and opened for—

Mr. Russell:: There have been a lot of suggestions thrown out.

Miss Nicholas: Are you being serious? When would the last time have been that we made industry change all its packaging? The bilingual? The metric?

Mr. Russell: In this area, as you know, the federal government, through the Department of National Health and Welfare, has for some time been imposing warnings and, I understand, is now going to the stage where it is actually going to require the tobacco companies to have a sort of warning right across the front of the package; not just a warning, but a sort of commercial, too, saying, "Smoking is particularly dangerous to pregnant women."

Miss Nicholas: When are they planning on doing that? Can you piggyback?

Mr. Russell: This month. Then they will have another one and change the message. This has made our discussions with the industry a bit more difficult, because the feds are also imposing more restrictions. It is not beyond the realm of possibility that the two levels of government—several ministries, Health and Welfare Canada, say, the Department of National Revenue and ourselves—could get so active in imposing designs and messages to be inserted on their packages that there would not be much left for their own brands and even that little piece that has the automated code.

Miss Nicholas: The universal product code.

Mr. Russell: We are rather mindful of that. We do want to get a device, a mark. It has to meet a number of obvious tests. First, it has to be a difference which, at least over time—I think it would be fairly quick—consumers will notice and look for. To that degree, it would be sort of self-policing. I think we would begin to get a certain amount of action from taxpayers themselves if they discovered stocks of cigarettes which did not bear the stamp being sold from a particular place. We would be able to take action.

Mr. Callahan: If they were being charged the full price. If they were getting a break, they would not report anybody.

Mr. Russell: They would probably charge you the full price or a few cents under, but you would notice the tax mark was not there. That might give you even more reason to report it, if you were not getting any advantage. If you were getting a reasonable portion of the tax saving, you probably would not call us, but if you are not getting it, you are certainly more likely to do so.

The second test is that we want it to be sort of reasonably visible from

15 feet on store shelves. We do have not just tobacco tax auditors moving around but also retail sales tax auditors who are even more frequently into corner stores and that sort of thing. While their primary job is not particularly to audit or collect tobacco tax, because that is collected at another level, we can utilize their visitations in that way, to quickly check visually whether the stock being sold in the store has the mark.

Third, we want it visible that way in slot machines. Typically, you get one sample packet at the top of each selection. They go like that. Then, in the slots, as they stack up and drop down, you see the end or the front. For that, we want a mark that is somehow viewable from that angle as well.

Miss Nicholas: There are people trying to ban those machines, so you may not have to worry about that third alternative,

In terms of the stiffer penalty, which the auditor recommended, I do not get a feel for what the penalty is now if you find someone who is not paying the tax on it.

Mr. Callahan: You are not allowed to smoke in the office.

Miss Nicholas: I wonder if it is worse or better than that penalty.

In your consultation, have you given us any idea of what kind of penalty will be imposed? Are you just going to take away the pack of cigarettes? Do you have any idea? I do not have a feel for it. It seems to me that right now your packaging is a long way away; it is a little way away, anyway. I just wonder when all this is going to come on stream, the packaging, the penalties and so on.

1610

Mr. Russell: The two things should be separated perhaps. Your first question was: Are we contemplating higher penalties? Yes, we are, and I think that will come in the next round of administrative changes in this area. However, we do not need legislation to put marking into effect. We have already armed ourselves with regulatory capacity to prescribe marks, have we not?

Mr. Moxley: Yes, to prescribe marks. We may require some supplementary legislation in the area of penalties that relate specifically to marking itself, because we could not put through sanctions of that kind by regulation, clearly. The general regulation-making section has been expanded to include prescribing a mark.

Mr. Russell: In other words, it might very well happen in stages, depending on the finalization of this work with the industry, and I do rather think it is now coming to an end. You might very well see a form of marking before we actually move legislation to pull in and tighten up the penalties behind it. I think if we can do that, we would move that way. To a very large extent, marking in any case is meant to be self-policing. When people react to the absence of a mark, then people will dry up the outlets. To that degree the thing might very well atrophy to the point where we are not likely to be using our penalties very often.

Miss Nicholas: I guess we are going to have to find a new job for the commissioner you report to when you find there is no label on your cigarettes. We will have to have a crime-stopper number for this call.

Mr. Chairman: Basically, we have dealt with two issues on this tobacco tax. One is the issue of identification. The second issue, which Miss Nicholas has been pursuing, is the issue of penalty.

On the issue of identification, you have said you are moving through co-operation with the industry but that you may also have to do it by legislation or by regulation?

Mr. Russell: Both. I think the government's intention, through the Treasurer, was fairly clear in the budget. It is going to happen. I do not think that was the point. He has had, and our ministry has agreed to, a rather extended review process, which I think is simply a courtesy due to those people we are obviously going to be disturbing and imposing extra costs on. It is our view now that this process seems to be coming to an end. The issue is back now with the ministry to proceed.

Mr. Chairman: My question to you is on the two issues. Can you proceed by regulation on either of those issues?

Mr. Russell: We can proceed by regulation.

Mr. Chairman: With both the penalty and with the identification matters?

Mr. Russell: No. We can proceed by regulation to impose marks. We will need legislation to give us stronger penalties, particularly related to the abuse of the mark.

Mr. Chairman: Your response to the auditor in his report was that you were bringing forward legislation. Can we assume that legislation and/or regulations, depending on which of the two issues we are dealing with, will be brought forward at the same time in the fall that you are bringing forward your revisions concerning the fuel?

Mr. Russell: It is possible you might see regulations before the fall. Then you would see legislation in the fall. Again, I am looking to that sort of theoretic window of opportunity we might have in the fall. That is how we move.

Could I make one other point? I think this is important too. There would be a lag after the point at which we impose an obligation to mark before marks start to actually occur in the stores, because there is quite a lot of tobacco in the pipeline; there are fairly large quantities. How many months would it take to clear all stock, flush it through the wholesale and retail networks?

Mr. Moxley: Three or four months.

Mr. Russell: Three or four months. We would probably do it in such a way that it would be absolutely clear that we were not touching any stock that would be moving through.

Mr. Callahan: Mr. Chairman, could I just draw one thing to their attention after you are finished?

Mr. Chairman: Just a moment. I assume that would be accompanied by advertising and so forth.

Mr. Russell: Oh, yes.

Mr. Callahan: An interesting scenario is if you go across the bridge at Fort Erie and into the duty-free shop; it is located immediately as you come over the bridge and before you go through United States customs. You can go in there and buy cigarettes and you can actually turn around and go back across the bridge. You would obviously have to be a little dishonest when you were asked if you had anything with you. On the other side, coming from the United States to Canada, you order your cigarettes and you pick them up as you cross over into Canada.

I do not know whether that has ever been looked at in terms of how many people just take a trip across the bridge. If you have a van full of people, they are all entitled to a carton of cigarettes. You just turn around and drive right back across the bridge. Why is there a difference in the procedures? That is what I would like to know.

Mr. Russell: There is at least supposed to be a check on the use of that device in the sense that the Department of National Revenue, customs and excise, is supposed to have annual limits or amounts you can bring over in any one trip and so on. I suppose, generally speaking, if that sort of system works reasonably well, it is not likely to be a major source of problem to us and we would not particularly want a system to deal with it.

Mr. Callahan: What I am getting at is that on the US side, when you are coming from the US to Canada, they punch into a computer your licence plate number, name and address. They have that on the system so that if you tried to come through the next day with it, presumably you would get caught.

On the side going from Canada to the US—I am not sure; the duty-free shop may even be before you go over the bridge at Fort Erie—you can literally go in there and no one asks who you are or what you are buying. They sell it to you, and you could turn around and just drive right back on to the Queen Elizabeth Way. I do not understand that. That seems to me to be a licence to avoid taxes. It is not just cigarettes; every commodity in there is being sold ex tax.

Mr. Russell: You are supposed to get a form to fill in. You are supposed to declare when you left, how long you have been away. The amounts you are allowed to bring back are somewhat related to the period of time you have been away. How well that is managed by the federal people, I really do not know.

Mr. Callahan: There was no form at all at Fort Erie. You just give them your Visa and they give you the cigarettes, or they give you whatever else you want to buy, booze, anything. It was unbelievable. I could not believe the system worked that way.

Mr. Russell: I was referring to a form you are supposed to fill in and give the federal people on your way back.

Mr. Callahan: In the US you do that. You do not, in fact, get your goods from the store you buy them in. You have to go through the checkpoint and you get them inside the border.

Mr. Moxley: I really am not in a position to comment too much, except I know that those outlets are very carefully monitored by federal officials in terms of the quantities they are selling and in terms of very tight reporting of sales; all the i's have to be dotted and the t's crossed. I think they are very tightly controlled that way. There may well be particular

locations where there are limitations on the amount of physical control that can be exercised.

Mr. Callahan: They are doing a rollicking business. I just thought I would draw that to your attention. Do not shut it down for about a month, will you? I may want to go.

Mr. Russell: I think our attitude on that front tends to be that we are not awfully concerned.

1620

Mr. Chairman: Thank you. I think Mr. Adams wants one last question, but before we move on to that I am going to suggest that tomorrow, instead of calling the deputy minister at 10 o'clock, we call the deputy minister and his staff at 10:30; that at 10 o'clock we meet to go through a briefing of what we have heard on these two items to date so that we can pull together some of our concerns and then be better prepared to go into the questioning at 10:30 on the last item of the Ministry of Revenue, which gets into some fairly complicated issues on land transfer. I do not want to start into land transfer at 4:30 today. I would like to tie together what we have done with this ministry before we meet with its people again.

If there are any issues on these two major topics which you feel have not been dealt with adequately, think about them, write a note to yourself and be prepared for 10 o'clock. I think we might want to go into the improper tax exemption granted, which would be the last tie-in item; the deputy might want to prepare for that and address it. Once he has dealt with that matter, maybe at 10:45, then we can go on to the whole land transfer issue. I assume that will be okay with the deputy minister. You get an extra half-hour of sleep tomorrow.

Mr. Adams, one last question on this.

Mr. Adams: Miss Nicholas asked me to say to you and to our guests that she was called away because of a sudden illness in her family.

First, why are cigars taxed at 45 per cent of the sales price when everything else we have been discussing today is per unit?

Mr. Russell: It has always been that way. Derek, can you answer that?

Mr. Rowsell: It is lost in antiquity.

Mr. Adams: When the Canadian Automobile Association, for example, is lobbying us about gasoline tax, and I suppose it is a fixed tax—we just discussed it—in this case that is not true, is it?

Mr. Russell: No.

Mr. Adams: Okay. That is fine.

I was pleased to hear that you are moving towards the marking system and I wish you luck with it. I hope you can move as quickly as possible despite the complications.

I may have missed this at the beginning. I am sorry I was out. I hate to talk about things which are possibly only \$100,000 a year, or according to you \$30,000 a year, the exemption.

Mr. Chairman: I think I suggested that we deal with that tomorrow.

Mr. Adams: Did you?

Mr. Chairman: It is the one item we have not dealt with, and I suggested that the--

Mr. Adams: I thought you were talking about the gross items here, which is to say the land transfer tax tomorrow.

Mr. Chairman: I was talking about the improper tax exemption granted, at the bottom of page 8 in our briefing notes.

Mr. Adams: It does not seem to be that large an item, does it?

Mr. Chairman: I beg your pardon?

Mr. Adams: It seems to me that it would finish consideration of fuel and tobacco. I am sorry; I misunderstood what you were saying. I thought you were talking about moving the land transfer tax to tomorrow.

Mr. Chairman: My effort was to adjourn at 4:30, but I suggest that there might be other items that members wish to bring up tomorrow that could be a follow-up on those two major items.

Mr. Adams: I misunderstood your instruction. Excuse me, gentlemen.

Mr. Chairman: I am sure it can be dealt with fairly quickly tomorrow. There being no further questions or matters before the committee, we will adjourn until 10 o'clock tomorrow morning in camera and 10:30 in public.

The committee adjourned at 4:25 p.m.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988:
MINISTRY OF REVENUE

THURSDAY, APRIL 20, 1989



STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIRMAN: Philip, Ed (Etobicoke--Rexdale NDP)

VICE-CHAIRMAN: Pouliot, Gilles (Lake Nipigon NDP)

Adams, Peter (Peterborough L)

Ballinger, William G. (Durham--York L)

Collins, Shirley (Wentworth East L)

Cousens, W. Donald (Markham PC)

Fawcett, Joan M. (Northumberland L)

Martel, Shelley (Sudbury East NDP)

Nicholas, Cindy (Scarborough Centre L)

Nixon, J. Bradford (York Mills L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Callahan, Robert V. (Brampton South L) for Mr. Ballinger

Charlton, Brian A. (Hamilton Mountain NDP) for Miss Martel

Lupusella, Tony (Dovercourt L) for Ms. Collins

Pelissero, Harry E. (Lincoln L) for Mr. J. B. Nixon

Clerk: Arnott, Douglas

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Revenue:

Moxley, Bob, Acting Director, Motor Fuels and Tobacco Tax Branch

Russell, T. M., Deputy Minister

Rowsell, Derek, Acting Executive Director, Tax System Operations and Design
Division

From the Office of the Provincial Auditor:

Archer, Douglas F., Provincial Auditor

Peall, Gary R., Director, Ministry and Agency Audit Branches

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, April 20, 1989

The committee met at 10:45 a.m. in committee room 1.

ANNUAL REPORT, PROVINCIAL AUDITOR, 1988
MINISTRY OF REVENUE
(continued)

Mr. Chairman: We are going to devote the morning primarily to the land transfer tax; however, before we do that, as I indicated yesterday some members likely have questions arising out of yesterday's testimony and as a consequence we will be reviewing it this morning.

I believe Mr. Villeneuve has some questions arising out of the first item yesterday, and then we will move to Mr. Adams who wishes to deal with a matter on the the improper tax exemption granted on motor fuel and tobacco.

Mr. Villeneuve, you may start your questioning.

Mr. Villeneuve: Thank you. Going back to method of collecting, particularly at border points, you have nine designated border points across the province?

Mr. Moxley: That would be about right.

Mr. Villeneuve: And of course customs and excise, the federal people, are there at all times. We do not have people there, other than when there is a blitz on?

Mr. Moxley: Yes.

Mr. Villeneuve: Would it be possible—and apparently you are in the process of drafting legislation to tighten controls—could you have some contribution by the federal customs and excise people at that stage of the game, have them peruse what it is that you are suggesting so that possibly we could have some co-operation in this area?

Mr. Russell: Yes indeed.

Our objective in this case would be to make an administrative arrangement with the federal people, perhaps on a fee-for-service basis. We would not particularly want to assign our people to those border points on any permanent basis, for two reasons. One, those resources are scarce and we can make more use of them elsewhere; second, we believe that if the registration system which we want to put into effect is established, and there is knowledge of federal collection, that is knowledge that collection of Ontario tax occurs at a border point, we would expect an enormous reduction in the volume of business anyway, exactly as we reported when importations of fuel were first dyed; that is when the fuel declared to be for nontaxable purposes was dyed, there was a radical, rapid reduction in importation.

It would just simply atrophy out and that would then mean that we would not in fact need people at the border points, and the feds could do the job at relatively little inconvenience. That would be our objective.

Mr. Villeneuve: Would you also be prepared to consider bonding along with registration, or do you feel that registration would suffice?

Mr. Russell: I think there is a bonding component in the registration system.

Mr. Moxley: Yes, there is.

Mr. Russell: Would you explain that?

Mr. Moxley: Bonding would be required as well. It would in fact be required.

Mr. Villeneuve: Would you be requesting that the federal officers with customs and excise sample the material that is going in either direction to verify that the shipping slip is actually identifies what is being transported?

Mr. Moxley: Those kinds of checks have in the past taken place periodically. Whether the federal officers would be in a position to do that on an ongoing basis gives us some concern.

Mr. Villeneuve: You see that as a problem?

Mr. Russell: Let me refer to another type of example. In the area of personal income tax—Ontario tax credits, that sort of thing—in effect we have a contract with the feds to collect our taxes and administer certain credits and exemptions for us. They develop their own audit, detection and investigation procedures; from time to time we discuss these with them and indicate whether we would prefer them to do a little bit more here and a little bit more there. I think probably the same things that occur in this matter of the examination of exports and imports.

The feds have a certain routine which they change, or I think would change often enough, so that their customers would know exactly how to behave in the face of them. We would discuss the adequacy of those methods from time to time. Predictably the feds, like us, would never be in a position to examine all exports and all imports, so it is essentially a selective process. There is a deterrent effect, you have enough activity to convince people that there is a reasonable chance that they can be detected.

On that basis, would one say 98 per cent of the shipments would go through unchecked, or 90 per cent; I do not know; or 70 per cent, whatever.

Mr. Villeneuve: If our House leaders were to provide your minister and your ministry with a time slot for legislation aiming for a particular time frame, do you feel that you could come forth with some draft legislation so that the feds could have a look at it, say before September?

Mr. Russell: That comes with the idea that we get access to the Legislature. Let me just say that is very pleasing. Sure, if we got such an instruction we would obviously perform; we would react to it.

1050

Mr. Chairman: On the same matter, Mr. Pelissero?

Mr. Pelissero: You mention you are negotiating with the federal government. Who specifically are you negotiating with within the federal government? Which department?

Mr. Russell: Perhaps the word "negotiation" describes something a little more formal that has in fact occurred. We have been working with the Department of National Revenue, customs and excise. As I mentioned yesterday, this stems from a process we set up two or more years ago in which three deputy ministers meet on a quarterly basis—their deputy, myself and the deputy from Quebec. It is simply that.

We sort of chalk up a list of things we would like to get to and correct. We sort of establish a mark of priority. We then cause our staffs to start a process of seeing what can be done to bring back plans that can be activated. It is essentially a co-operative approach that has worked very well. It has not involved negotiation in the sense that the deciding factor all the time is how easily can it be done, is there a better way to do it and so on.

As I say, "negotiation" is perhaps too formal a term. It suggests a little bit of combativeness that is not there. They are very co-operative in that ministry.

Mr. Pelissero: In terms of legislation or regulations between the federal and provincial government, I am assuming that the regulations are somewhat compatible. What they are proposing or doing federally is compatible with what we are doing provincially? Is that a good assumption?

Mr. Russell: Yes. Whatever we require the feds to do, or try to persuade them to do on our behalf, has to be checked through to be sure that they indeed can assume these powers; that they can exercise them on our behalf and it does not sort of violate any other rules or restrictions that they have on their behaviour. I do not know that we anticipate any particular problem on that front.

Mr. Moxley: I do not think so. Really, I think any problems that might occur—for instance there would certainly be some complications if someone is importing into Ontario, importing not for use in Ontario but to go through to some other province, using Ontario as a corridor through which to transport fuel that is going to be consumed in another province, that might raise the question of how you can levy a provincial consumption tax on something that is not to be consumed within the boundaries of this province.

You can probably require a deposit of an amount equivalent to the tax, refundable on proof that it has left the province. There are those kinds of administrative issues that would have to be more fully spelled out and resolved.

Mr. Pelissero: Thank you.

Mr. Moxley: It would not be without complications; we think it could be done.

Mr. Pelissero: I am assuming you have some type of discussion with any of the border states in terms of the same—

Mr. Moxley: Yes. We have an agreement with New York state that I think the auditor is aware of. The next states that we will be most concerned with getting an agreement with are Pennsylvania and Michigan, both of which have copies of our agreement with New York at the present time and are examining those for possible use as a kind of specimen agreement with Ontario in that respect.

Mr. Pelissero: I live in the Niagara Peninsula and have a couple of border points in my riding. You may have addressed this earlier; if you have I can check Hansard. In terms of the number of individual consumers who are driving over to the United States, filling up and then coming back to Canada, do we have any handle on lost revenue because of that happening; or I guess that would be very difficult to do?

Mr. Moxley: I do not have any handle on it.

Mr. Villeneuve: When you state that you have an agreement with New York state, would that also include Cornwall Island and Saint Regis Indian Reservation, residents there are considered to be North American native peoples. Do you have agreements with them? They are pretty heavy importers-exporters.

Mr. Russell: No; not that extend into those reserves.

Mr. Villeneuve: So there is no agreement with the native people on reserves, where they are called North American residents?

Mr. Russell: I think we could probably agree with New York and we might yet agree with the federal authorities too, that certain restrictions should prevail before things go on and come off. What goes on in there, I really do not know. I would not think we would expect to extend any of our authority into those reserves, if that is what you are suggesting.

Mr. Villeneuve: I am just asking.

Mr. Russell: In a practical manner I just do not I think it is on.

Mr. Villeneuve: In the draft legislation that you are preparing, would that also include what we discussed yesterday where your marine terminal people and your pipeline people have special status in relation to other wholesale fuel distributors? Would they then kind of all be on the same plane?

Mr. Moxley: In the draft of the amendments as we have them now, we would provide for collector status for a number of those people. We would, in effect, divorce your ability to dye from your ability to be a collector. It is the two things tied together now that restrict us to the comparatively small number of collectors on the fuel side. That is not the case in gasoline because dye is not involved and we have roughly doubled the number of collectors for gasoline that we have for fuel.

One other point perhaps I should make: You were referring generally to the registration and bonding of importers-exporters-transporters and whether we should start discussing those?

What we are proposing there with the feds—in fact our intentions there do not come as any surprise to them, I have had discussions with them in general terms, not in terms of specific draft versions of legislation at this point, in terms of what we do propose in the way of registration and bonding.

Irrespective of what happens with regard to the possibility of collections through federal mechanisms of provincial petroleum taxes on imports at the border, we will still be proceeding in some form with registration and bonding for importers and exporters.

Mr. Villeneuve: So you are quite compatible in those areas in your discussions to date with the federal people.

Mr. Moxley: Yes.

Mr. Villeneuve: Thank you.

Mr. Chairman: We will now move off fuel tax. Needless to say, from the great number of questions that were asked on this topic I think you can see the concern of the members of the committee and I am sure you will be anxious to see our report.

Mr. Callahan, did you just indicate you had one last question on this topic?

Mr. Callahan: Just the one item and it deals with fuel and tobacco. Have you had any fruitful discussions with the feds about how they are going to deal with the Indian reservations? I see we could come up with the best scheme in the world to protect our own turf and wind up with the Indian reservations being the thin edge of the wedge through which whatever this organized arrangement is could then be channelled and we would have done nothing but stuff the problem back into a smaller area, namely the reserves. Have there been fruitful discussions with the federal government which is responsible for Indians or is it not prepared to—

Mr. Russell: I am sure there are discussions. This matter might affect a number of ministries, obviously, the justice ministries and others as well as ourselves. From our own perspective, suddenly we have had the benefit of some private and confidential briefings by the federal customs and excise people on how they see the problem and what sorts of actions they can take or not take. Suffice to say that I do not think there seems to be any suggestion or intention, or indeed hope, that some how or another the system, the federal or provincial controls and all the rest of it, can be moved into those reserves. It seems to be very much a matter of negotiation and some sort of compromise and agreement being reached.

In that respect I think the taxation issue has to take its place along with a whole series of other issues which I understand are matters of contention between Indian groups vis-à-vis the federal government, and possibly all governments. The treatment, status and such in the whole nation becomes very much the issue.

1100

I cannot predict in any way at all how that might be solved or whether it would be solved. I think our effort has been trying to get a fix on the supplies going into the reserves, then to create systems which would pick up those supplies when they start to come off the reserves. Some of the devices we have discussed will assist that. I do not imagine a complete solution is likely.

Mr. Callahan: My major concern is that whatever we do—if you follow the report, the bonding and the registration—that you would also keep a close check on what impact that has on the use of the reserves, that they do not suddenly become the funnel for all of these activities, so that illegal, illicit activities, organized crime or whatever, the reserves do not become the funnel for this—

Mr. Russell: Absolutely.

Mr. Callahan: Thank you.

Mr. Chairman: We will now move to the improper tax exemption that was granted.

Mr. Adams: Mr. Russell, as I understand this particular issue, audits of Mr. Moxley's branch indicated that three million cigarettes a year were being given to employees. The auditor suggested a \$100,000 a year loss in tax revenue. The auditor was informed that this was the result of an agreement between the branch directorate and the manufacturer. The Tobacco Tax Act does not permit such an exemption except as regulated by the Lieutenant Governor in Council.

Your response was that the exemption was granted for quality control testing. The suggestion is that, in fact, there are now fewer people involved than was the case—1986, I believe, was the year we are talking about—that we are talking about perhaps \$30,000 in lost tax revenue and that you are reviewing the exemption.

One of the reasons I am interested in this, that I am sort of curious about it, is the quality control testing part. I have this vision of three million cigarettes being pushed down the throats of employees, and then I wonder what sort of follow-up there is. Is the follow-up that so many died or so many became sick; or that so many became healthy or what?

Briefly, are you reviewing the exemption? Could you comment on it in the area of revenue foregone, in the light of its legality—if that is the right word—and in the light of any benefits that might be derived from this quality control testing?

Mr. Moxley: First on the legality: In fact our legal services branch, in their review of the act and the provisions that would relate to this, came to the conclusion that a very strong case could be made for the exemption, that it was not improper.

Second, the figure of \$30,000 was a recent figure, because the number of staff to which this particular quality control program applied in Ontario had decreased over the years, that is how it dropped down.

Mr. Russell: There is one of your statistical results: It is a reducing problem.

Mr. Moxley: The purpose of the program, as I understand it, required the completion of forms by employees relating to the packaging, was it properly packaged; what was the taste like, etc. Leaving all of that aside, the problem has, in effect, resolved itself with Bill C-51. These free distributions now are ruled out under federal legislation. As of January 1, under the tax laws the quarrel about whether the exemption is or is not proper has ceased to exist.

Mr. Adams: Thank you.

Mr. Pelissero: Just on that: You mentioned free distribution; I am assuming that applies to alcoholic beverages as well.

Mr. Moxley: I am not involved with alcoholic beverages—at least not on a professional level.

Mr. Pelissero: The reason I asked was that when I was working in London I know Labatt's had a happy hour or something in the afternoon for their employees where they were provided up to two or three free beers.

Mr. Villeneuve: What are you doing here?

Mr. Chairman: Labatt's employees are all 300 pounds or more.

Mr. Pelissero: Whatever. I am saying the same logic applies as to tax loss because of the free distribution of cigarettes. I am assuming that would be the same in terms of alcoholic beverages, but the question is does free distribution apply only to cigarettes or does it apply to any product?

Mr. Moxley: I cannot speak for any other products because I am not involved in the taxes that would be imposed. The vast majority of free distributions, in fact, are and have been taxable. What we are talking about is this very narrow particular program that came under the heading of quality control. It was not like the free distribution that the other tobacco companies, let's say, were running for their employees where they simply issued the product and that was that. If you work there you get a carton a week or something. We were getting taxes on that. In fact we were getting taxes on most of the product that was issued by this particular company. We are talking about a fairly narrow question here.

Mr. Pelissero: Okay, thank you.

Mr. Chairman: Could the company actually demonstrate, then, that they were improving quality control by this? Did they demonstrate that to you? I mean, here you are giving away—when you make an exemption it is the same thing as giving a grant, you are spending public money. What proof did you have from the companies that they were actually improving their quality control with this program?

Mr. Moxley: It is more a legal question, I think, than whether or not there is some subjective evidence that they were increasing the quality of their product.

Mr. Russell: In other words, I do not think we would be particularly concerned whether it was successful or not. There are many things that companies spend money on which in effect end up or appear as a reduction in tax. I suppose indeed every unit of cost appears as a deduction. There are many things that companies do which are unsuccessful.

Mr. Chairman: Except that everything else that they spend money on is taxable. If they go out and buy any other kind of service they are paying tax on it. Here you are giving them a tax exemption on a service simply because they manufacture the product themselves and they call it quality control. I ask you, why should this be any more exempt from taxation than any other service they buy?

Mr. Moxley: First of all, I think there are all types of quality control that are exercised at cigarette manufacturing facilities, just as they are anywhere else. There is no question, for instance, that cigarettes are put on smoking machines to judge their tar and nicotine content, or cigarettes are torn apart in some other way as part of a process to determine whether or not they have been manufactured up to standards, or parts of the product are tested in an attempt to see what draw is required in order to get smoke through a filter let's say—there is no question that those types of quality control and those products would never be consumed in Ontario except by machine. That is not the kind of consumption that is meant in the act, so clearly those are exempt. What we are talking about is an extension, if you like, of that same principle.

Mr. Chairman: When they buy that machinery to test them, they pay tax on that machinery do they not?

Mr. Moxley: I would assume so, but I—

Mr. Russell: I do not believe we have a retail sales tax on production machinery any more.

Mr. Callahan: Not yet, anyway.

Mr. Russell: We have been in and out of it several times over the course of the long swing of history, but at the moment we do not tax production machinery. That is not to say we do not tax production machinery in other ways. Certainly the feds are in it and so on.

Mr. Chairman: Are you actually convinced that this is quality control and not promotion?

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Mr. Russell: At the time the ruling was made, I am convinced that the people who made the initial ruling back in 1973, or whenever it was, were convinced of that or otherwise that particular ruling would not have been given to the company.

Mr. Callahan: Has it enlarged the number of machines that are now smoking?

Mr. Russell: It is their fastest growing market.

Mr. Callahan: Is that right?

Interjections.

Mr. Chairman: Are all companies doing this or only certain companies?

Mr. Moxley: I think, as I indicated earlier, none of the companies would be doing it now because of Bill C-51, effective January 1, 1989.

Mr. Chairman: Thank you. We will moved on to the land transfer tax. Mr. Russell, do you have an opening statement on this?

Mr. Russell: As I understand it, there are two issues that perhaps can be taken somewhat together; well actually I suppose there are several, but the first is lack of control by us of collections of land transfer tax at land registry offices, which come under the Ministry of Consumer and Commercial Relations, and the conclusion that it works out that some of the funds are in jeopardy. I think that is a fair summary of what this concludes.

Apart from going into the details of how information flows to us and how it reconciles with the way these functions are performed in that other ministry, I guess the basic point is that the control, auditing and good management of these funds is in fact the responsibility of that other ministry. We are interested in what occurs for relatively limited reasons, namely we are interested in a tally on revenue flow, but it is that ministry which is responsible for making sure payments are properly recorded and reconciled with amounts which should be paid, at least according to the first level of rules prevailing, and that those moneys are properly deposited in the consolidated revenue fund.

I really think the question of whether those funds are secure and properly managed is a question which should be taken up with that other ministry.

Mr. Chairman: But your act gives you the ultimate responsibility, not the other ministry. The other ministry may be doing it on your behalf, but your act fairly clearly gives you the ultimate responsibility. I find it difficult for you to simply rationalize and say, "Well, it is the other ministry's problem," when the buck eventually, according to your act, stops with you. Is that not the case?

Mr. Russell: That might be the case.

Mr. Chairman: It is the case, sir.

Mr. Russell: I think it becomes a less serious matter if we happen to be reasonably convinced that the other ministry is doing a good job. I think, from our understanding and knowledge of it, it is a well-run system. We checked this again with that ministry and we are informed that it has a good audit cycle covering the 70 or so offices on an annual basis.

They have in place a whole series of checks and processes which conform to good standards of management in these areas. We are informed that in so far as these things have been audited by the Provincial Auditor's staff, no particular sets of problems have been discovered. In other words, I do not think we believe—we do not have particular reason to believe—there are problems here.

There is no evidence that we need to intervene and in effect start to audit and to impose ourselves into the ongoing business of this ministry. The tax that it collects is one of a series, I suppose, of charges, fees and such. It is a portion of what it does. It is in that broader context, I think, the question of how good it is at it and whether there are funds at risk should be considered.

Mr. Chairman: When you have \$8 million in taxes and interest not paid on 80 assessments, I really wonder how you can say that everything is beautiful and there is no problem.

Mr. Russell: I suppose it depends on the way one looks at these things. I suppose if we went in there with the presumption that there must be something wrong, I suppose we would find it. But I think in terms of what appear to be proper standards in conduct and checking of the management of these funds, there is no evidence there is something wrong.

The point the auditor's people make has to do with some sort of reconciliation, some sort of difference in the flow of information that comes to us relative to what is happening in that ministry. Can you cast some light on this? There is not an indication in itself that there are funds going astray, is there?

Mr. Archer: No.

Mr. Russell: Why do you not deal with that?

Mr. Moxley: Basically, I think, as was covered in the ministry's response that was printed in the report, the unreconciled differences that we are talking about here were differences between the statistical reports that we are getting on a monthly basis from the individual land registry offices, totalled up on a monthly basis and compared with the journal entry with regard to the dollar amounts deposited in the consolidated revenue fund that we are getting from the head office.

In fact what occurs in those kinds of situations is that you can have slightly difference cutoff dates and thus the two things are not directly reconcilable by us.

Mr. Callahan: Well could that not be changed so that you do get correct statistical cutoff dates on revenue?

Mr. Moxley: There is no suggestion, and I do not think that the information is incorrect in context. It is just that these things cannot be readily reconciled.

Mr. Callahan: Does it balance at the end of the year?

Mr. Moxley: It would balance at the end of the year in the records of CCR. I do not think there is any evidence that it would not, though I am not sure of that.

Mr. Chairman: I will ask the Provincial Auditor to comment and then maybe we can—

Mr. Archer: I think it is a matter of deciding who does what. Our understanding was that the Ministry of Consumer and Commercial Relations was really just acting as an agent on behalf of the Ministry of Revenue and that the Ministry of Revenue was really responsible to see that the correct amount of money was deposited.

In the ministry's response there is reference to the fact that a draft memorandum of understanding was being developed between the two ministries with respect to each ministry's responsibility in this handling of the money, and I would presume that would cover the reconciliation of the monthly report with the daily deposits.

Perhaps the deputy or one of the staff could explain the development of that draft memorandum and where it stands. The response of the ministry was the situation as of February 1988. What is the situation as of March 1989?

Mr. Moxley: That ministry indeed acts in this respect as an agent for us. It is also subject, as are we, to a whole set of rules and regulations governing the way we manage, record and pass funds through to the consolidated revenue fund.

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In terms of the particular suggestion here that funds might be going astray, the question is whether their systems which handle our funds, collections which have been made in respect of our tax or our statute, as well as those collected under all the other statutory fees and licences being managed by them jointly, are subject to those rules and regulations, the same standards of good financial management.

I am merely saying here that we are aware of their responsibilities to meet those standards. They are in place. We know they are subject to audit by their own internal auditor. We rather suspect they are subjected to audit by you on a regular basis. We have never received any indications of infractions or problems developing, that moneys are going astray.

If there were I imagine we would consult with them rather more directly. It is the same thing, in fact, with the federal government. The federal government administers our personal income tax. I suppose, in theory, that gives us the right to audit the federal government, to check on how they do it. As you know, we execute that authority with a degree of judicious sensitivity. We are briefed, we do check what they do from time to time; there is no indication anything is amiss therefore we do not intervene.

The second point is that while there might be a problem of reconciling the signals that come to us with their management and transportation of funds through their system, that is merely a difference between two types of signals which are not themselves indicative that something is going wrong. It merely says we should change the way we receive information so that we are in exact time-lock with what is happening within that ministry. We can do that.

We are, on a daily basis or a monthly basis, interested only in very general terms in how the money is moving. The Treasury is interested in so far as it begins to become input to revenue forecasts and so on; but if we are interested in whether they are being effectively managed and protected, I think we look elsewhere. I think that is not an unusual practice among ministries.

There are many ministries doing business for other ministries. The first presumption or working rule among ministries is that each ministry which is actually handling funds, administering rules and regulations and statutory requirements, has in place its own effective systems of financial administration, that payments do in fact move through properly reported and all the rest of it.

In the case of this ministry, we know it to be in a large way of business, we know it to be competent. There has never been any indication that the funds have not been properly tallied, that they are not subject to a good

audit program and that when the Provincial Auditor's people have gone in they have found anything substantially wrong. On that basis we have deferred moving in to establish another level of control on that other ministry. It is simply that.

If it is a matter that you expect to see in our ministry signals that exactly measure the signals that are occurring on a daily, weekly or monthly basis in that other ministry, I suppose we can achieve that; but that will not have said anything about there being an increase or improvement in the management of those funds, or that there was a problem being corrected. I think we can achieve that.

Mr. Chairman: Thank you. Mr. Archer?

Mr. Archer: I think on the point that we have not discovered any of misdirection of funds, the point we were making is that when you come up with two documents essentially covering the same information that have different figures, there is always the risk of something—an unnecessary exposure to the misappropriation of tax revenue in this case.

I think the way I read the deputy is that he sees, and it has been agreed or understood, that the responsibility for ensuring the moneys collected are in fact deposited and that other reports covering the amounts of revenue flowing from that source tie in with the amounts deposited, is the responsibility of the Ministry of Consumer and Commercial Relations. If that is the situation then certainly we will audit to that, and this particular interest then would be pursued in our audit of that ministry rather than the Ministry of Revenue in future.

Mr. Russell: In practical terms, I would imagine that is where you would look to see whether there was anything wrong with financial management and whether there were any funds at risk. I would like to repeat that you said the two documents cover the same period of time and you would expect them to be the same.

Mr. Archer: Yes.

Mr. Russell: That is not quite true. They do not quite cover the same period of time, nor do we expect them to be accurate. We do not say, "Send us absolutely accurate, audited returns by the month," or whatever the reporting period is. At this point we are interested only in what seems to be going on out there, what sorts of flows are occurring.

In fact Treasury, as you know, would be much more interested in precise cash flow terms, in terms of the management of government finances; liquid reserves, borrowing and all that sort of thing. Our interest, on an ongoing basis, is not in the type of precision. It is of no particular significance to us, except we are interested in how revenues are flowing through that ministry and going to the consolidated revenue fund.

If we have changed the tax rate, for example, we would expect there to be some sort of a response—the interest rates skyrocket, we expect there to be a dropping-off in the home building market. That is where we would look for a signal that something is occurring and we would be interested in what appears to be the order of magnitudes of change and so on.

But we are not interested, at that point, in the exact numbers of dollars being pursued and pushed through the system and so on. Again, I do think the fact there is a difference between the signals we get and their own signals does not suggest, in any way at all, that there is an unnecessary exposure to a misappropriation of tax revenue, because we are not using that system as a method for controlling funds.

I think reasonably one would look directly to the systems in place in other ministries to see whether they are adequate, whether they conform to the standards to which all ministries and all financial managers work, our own internal auditor works and which are checked by your own staff.

Mr. Chairman: Thank you. I would like to have the committee move on to the untimely assessments jeopardizing election enforcement efforts, but I did see Mr. Callahan's hand up and I assume he wanted to ask a question on this topic.

Mr. Callahan: Yes, on this topic, Mr. Chairman. I just want to get it clear in my own mind. You talked about the reason for the inconsistency being that there may be a difference in times of reporting and the money actually being sent off, but do I understand it correctly: the registry offices collect the data and submit the report of revenue to you on a monthly basis?

Mr. Moxley: We get statistical data from the registry offices on a monthly basis.

Mr. Callahan: How do they send the money to you? Hopefully, it comes every day.

Mr. Moxley: It is a journal entry.

Mr. Russell: The money does not come to us.

Mr. Moxley: We are advised of it.

Mr. Callahan: Where does the money go?

Mr. Russell: Right into consolidated revenue fund; that is Treasury.

Mr. Callahan: Does the money get sent out every day?

Mr. Russell: At the end of each day they would clear each day.

Mr. Callahan: I am sorry. This is really something where—

Mr. Russell: I have some information here on what they do if it is of interest to you.

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The funds collected at the offices are deposited each day with all their other receipts of fees and licences or whatever is they collect. It is a direct deposit system and I assume that means they deposit directly into the local bank and then there is signal through to Treasury through the banking system that money has hit the banking network and that therefore will be

credited to the government's account as of midnight that night and an interest benefit will accrue. A copy of the deposit slip is sent each day to that ministry's finance administrative services branch that compares the slips to the bank statements when they are received. They have their own internal system of reconciling the funds moved.

Apart from that, they are in the business of making sure that the tax offered for payment by the customers conforms to certain standards. That is they make the right arithmetic calculations, they are properly entered, the forms are properly recorded, properly calculated, and as I say moved through the system.

In that sense, we are interested only in—I think probably these are the best words to use—statistical information on how it is performing. We are not interested in precision of management of those funds.

Mr. Callahan: Your only interested in the portion that is land transfer tax. You are not interested in the registration fees.

Mr. Russell: I believe there is a whole series of these charges made.

Mr. Callahan: Does your ministry take any concern about ascertaining whether the affidavits are true, that this is a resident Canadian buying property as opposed to a nonresident? Maybe I am moving into another area. I do not know.

Mr. Russell: That does begin to move into another area. We are responsible for audit, for veracity of what is declared. The people in the land registry offices are engaged in a collection, administrative and passing-on operation. I doubt whether they undertake any of those types of tests at all. That is our business. It is our business to devise whatever audit procedures or investigations are needed to check the truth of what people are declaring at the land registry offices.

Mr. Callahan: How far do you go in that respect?

Mr. Russell: We do have an audit program and a checkup program. Do you want us to move into that?

Mr. Chairman: I do not want Mr. Callahan to jump queue because I know there are other members who want to ask questions.

Mr. Russell: Do you want to on to these other matters of untimely audits?

Mr. Chairman: Yes; and I believe Mr. Charlton was on the list to start asking questions on that, but Mr. Adams did have a question on this.

Mr. Adams: It was just a point of information and it may be irrelevant. I understand there is a tendering process going on now for computerization of the land registry offices. I just wondered if that is at all relevant, because it is a very large scheme, I understand, and tenders have been requested for it. Do you know anything about that and does it impact on what we are discussing here at all?

Mr. Russell: Not in any direct sense. I suppose we would be interested they are mechanizing and things might be improving in terms of input-output efficiency; but we would take no particular stand there.

Mr. Adams: I think it is a very good move in the land registry offices, by the way. It may affect a lot of things they have to deal with.

Mr. Russell: You are referring to the great Polaris exercise?

Mr. Adams: I am not sure what I am referring to. It just came to my mind.

Mr. Russell: If it is the same thing, the Polaris exercise is something that has been going on for a long time. It really involves the establishment of a completely articulated, comprehensive, all-inclusive, flexible, data base of all information relating to land, properties—big spacial nets, small spacial nets, zeroing in on big areas; you can move right in on the particular properties.

Mr. Adams: I am sure that is it; and it sounds very exciting. Does that affect our discussion today at all?

Mr. Russell: Not at all. It would affect another part of our ministry more directly than this operation.

Mr. Adams: You should have ruled me out of order, Mr. Chairman.

Mr. Chairman: I was about to. It is sometimes difficult when dealing with university professors for we lowly students then to get a word in edgewise.

Mr. Charlton: It seems to me in this next section we have two problems that the auditor's office seems to have identified.

The one problem is the problem of the untimely question, the question of your ministry determining whether the sale price that was stated at the time of transfer, the sale price that is going to generate the tax, was an appropriate sale price or whether in fact it was understated, etc.

Mr. Russell: As I understand it, both these elements, the problem of audit investigations and identification of possible infractions and the backlogs, have one thing in common in that they relate primarily to that part of the Land Transfer Act which applies to nonresidents. In other words our responsibilities or mandate goes beyond the calculation and that sort of thing, it also involves a whole series of very complex issues about who is buying, residents or nonresidents.

Mr. Charlton: That was the second part of the issue I was going to come to. The first part, as I understood our briefing, is it could be resident, it could be nonresident purchaser but the deliberate understating of a sale—

Mr. Russell: Understating?

Mr. Charlton: —which in effect, whether you are using the resident tax rate or the nonresident tax rate, is going to generate a tax that is lower than it should have been.

Mr. Russell: Yes, that is common to many taxes.

Mr. Charlton: That is one of the problems we have in this section, then we move into the nonresident in a minute. I want to pursue this part of it first.

It seems to me that what is being said to us here is that the untimeliness of your coming to the conclusion that a stated sale price was not a reasonable sale price has been a problem in some instances because of the time it took your ministry to come to that conclusion.

Mr. Russell: Perhaps we can separate and package out the question.

As I understand it, most of the cases identified in this report which the auditor's people discovered in running through our records in management of this tax had to do with that particular question of the nonresidents.

There would be other cases of rather more simple evasion, if you like, which would not be surprising in the same way that every tax can be avoided if you are sufficiently lucky to make a false statement and nobody checks it.

In that area, as in all other areas, yes, more could be done. It is a matter of resources.

Mr. Charlton: Yes, it is a matter of resources. It seems to me from my knowledge of your ministry that you already have the resources within the ministry and you are already using them on a daily basis. It seems to me it is just a question of utilizing data that is already there provided by other sections of the ministry.

Mr. Russell: You are asking why we do not use the tried and true, and highly competent, army of assessors? We do.

Mr. Charlton: You do not even have to use the army of assessors. I would assume---

Mr. Russell: We certainly use the information that comes through them.

Mr. Charlton: Unless you have wiped out a lot of what used to be on the data files, what you have is the assessment branch with every property in Ontario in its data base, with a market value assigned---granted relating to a particular year, not necessarily the year of a sale---but a market value which is an indicator of a reasonable range in terms of sale prices on a particular property. You also have that assessment division, on a regular basis, having a look at every single sale that comes out of the registry office---

Mr. Russell: Absolutely.

Mr. Russell: ---in this province, trying to determine whether they are a valid sale or not for the purposes of market value analysis. They are doing all of the things that this whole package says to me you are responsible as a ministry for doing it in relation to the land transfer tax. All of it is already being done. You have a data base there which could produce a virtually instant check for you.

Mr. Russell: You are right. We have and we do. I do not think the auditor was pointing to problems in that particular area, that is whether someone has literally entered the right purchase price for tax purposes as the one that otherwise is recorded through the system.

Mr. Peall: I think we did have two concerns. The delay aspect was primarily related to this nonresident situation, and I assume we will get into that shortly. We also did have concern in general about the extent of audit coverage—the actual amount of effort devoted by staff to reviewing returns with a view to assess whether they were properly declared.

Mr. Charlton: So that concern is there, and it would be the larger of the two.

Mr. Russell: In my effort to put your question into manageable chunks, I would say the sort of question you are raising—that this should be a high presumption that indeed we can get to it, that indeed we do have a lot of information and we can use more—is simply the matter of how many such checks, or indeed audits, we can undertake. I have heard the Provincial Auditor's people say that we could do with some more there. I do not think we would argue in a sense that we know that in this area, as in most other areas of taxation, if we have more audits we could certainly do a better job.

Mr. Charlton: I guess what I was getting at here is that it seems to me, in terms of this aspect, that although we do not have any figure in front of us in terms of what the tax loss might be, but if people are understating sale prices then there is going to be a tax loss.

Mr. Russell: I think it is going to be \$100 million, is it not?

Mr. Charlton: Do not get us off on that one again.

At any rate it seems to me you also have an identification system in place. In other words you could be reasonably accurately checking the tax value of every land transfer without any significant additional cost to your ministry, probably by just putting in place some kind of a form check in the assessment branch so that when assessors who are checking every sale anyway find a questionable sale they notify the land transfer tax branch.

Mr. Russell: Actually the point remains that, as I said, we know of that and we do. The assessors, the value of that line, it seems to me, is they also pick up the same values which have been declared by taxpayers and used at the registry offices, and the moneys then flow through to consolidated revenue.

The assessors are in a good position because they are supposed to have a very shrewd notion of what is an expected and likely price, and they should be able to trigger something funny about that one.

Mr. Charlton: That is exactly what I am saying. You have the mechanism in place, use it.

Mr. Russell: Could we ask Mr. Moxley to say how we do try to make that link up?

Mr. Moxley: There are a couple of points I should make: One of them is that we have terminals through which we can access the Ontario assessment system right at the land transfer tax session; so that piece of the puzzle, if you like, is in place.

The second thing is that we are not necessarily taxing on market value in all instances but are taxing on the value of the consideration. A sale that may be invalid for purposes of assessment in attempting to determine what the market value of particular properties are in a particular vicinity, just because it fails the assessment criteria, the purchase price may not necessarily be some invalid price for purposes of land transfer tax.

Mr. Charlton: I understand that. I understand that there are a lot of sales between family members, any number of things where the property could be sold for less than the market value and taxed at that lower rate legitimately, I understand that. We also know though, that there are things going on out there where through the use of other considerations, a \$150,000 property may quickly change hands on paper at \$110,000, but that was not the real sale price.

Mr. Moxley: Yes, and we do try to look at those, we do try to identify those. As the deputy minister has indicated, the more auditors you have the easier that process is.

Mr. Charlton: Again what I am saying is that is exactly the kind of way that the assessor approaches researching the sales, to determine whether or not to use that sale in a market value analysis or to get rid of the damn thing because there is something strange about it; either it was a family sale or there was some other kind of consideration under the table. So that is exactly the job they are already doing.

Mr. Russell: I think what we are saying here is, indeed Bob's people know how to access and use the information coming from the assessment system, and it is valuable in providing a series of signals which might be taken as a presumption that something might have gone on that is worth looking into. The name of the game in this particular instance is the ability to follow up; how many and so on, that is a capacity

Mr. Charlton: I guess that is the extension I was suggesting, because in fact what the land transfer tax people have to decide when they see something that may be out of whack, is whether or not it is a big enough number and they have the time to pursue it. What I am suggesting is that the assessment branch and the assessors are already pursuing that question. They are doing your investigation for you, at least an initial investigation to determine whether to use the sale or discard it.

That is not going to show up on the Ontario assessment system if in fact they pursue a sale and say, "Okay, this \$110,000 doesn't reflect a real arms-length market sale. Something has happened behind the scenes here. We have got to chuck this sale, we cannot use it in our sales analysis."

If they just simply filled out a very quick form which was then forwarded to land transfer, that would I think start the sorting process for you, because Oasys is not going to tell you about the stuff they discard.

Mr. Moxley: We could certainly look to putting in that mechanism.

Mr. Russell: What I would also like you to do is to go among your colleagues and persuade them to take on more investigative work here. If you come back intact we will certainly give you lunch.

Mr. Charlton: All right.

Mr. Russell: There is a bit of a capacity problem there too.

Mr. Moxley: We tend to concentrate on the larger properties changing hands—what are sort of the values there—because that is where the money is. So there is something of that. That is any sort of audit selection area and we do refer quite a number of those back to regional assessment offices and request their opinion of the value of the property as of a particular point in time, etc.

Mr. Charlton: Yes, I guess I am just suggesting that there could be an automatic process there, for a very minimal cost, that might let you get at a lot more of this.

The second part of this, I guess, is going into this nonresident question. I am not totally up to date on the legalities here, but essentially what is happening is that you get a nonresident purchaser who is not being taxed as a nonresident purchaser because the purchase has been fronted through a numbered company. In other words, the company is the owner of a property and there is a share purchase instead of a land transfer in the purest sense of the term. Is that the kind of thing that is happening?

Mr. Russell: Perhaps we could take the two things together, the matter of audit and the matter of appeals, because they essentially relate to the same type of problem and the same body complexity which has to be wrestled. Let us just say we are now talking about that number of these cases covered by these recommendations in my response which have to do with what we generally refer to as the share transfer trick. It is a classic example of how a loophole occurs or is squeezed open by judicious legal thinking and so on, and indeed how it is closed down.

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As context to this, it should be said that this particular loophole was closed two years ago. What is interesting here is that we have, one way or another, still locked into the system, and most particularly into the appeals system, a whole bunch of cases which relate to earlier use of that loophole which is now closed off.

The other thing that might be said is that it was a loophole, but the trick had to be done—it had to be used very well, the device had to be constructed with great skill. I suppose, in effect, many of these groups, I mean of the ones locked up in our appeals system right now a very high proportion have to do with transactions which were run by one particular lawyer who became a bit of a specialist in the use of this loophole.

But it was not quite good enough; he did not do it well enough with the result that we were able to find it does not qualify, slap in an assessment, we would have liked to slap it in with a suggested degree of speed which is not there because this is an extremely complicated business, but we did put in an assessment and now they are in appeal.

The appeal process is independent and objective. These are in our ministry but report to me under a completely different mandate and they are, in effect, required to go all over it again. Just as it was time consuming and complex business to conduct the audit in the first place and issue an assessment, getting the information, the affidavits and all of that from the farm residents and unravelling the scheme, that has to be done again at the appeals process.

I think the interesting thing is that while there is a backlog, we do not, particularly in this instance, regard this as being a backlog which is of any great matter or concern. By the way, there are not similar backlogs relating to the great majority of other types of appeals going through, but in this particular area, with this particular abuse and this particular customer, we expect it to be a long game anyway. Many of the delays in the audit process are repeated in the appeals process. Again, information will be gathered and reconciled again, in many cases from abroad, translations of foreign documents into English and all that sort of stuff is required.

The latest count from the branch is that 50 of them, or 50 per cent is it, have now been cleared. I think it is the case that the appeals branch has found 100 per cent in favour of the ministry.

We expected it to go to court. We do not expect the taxpayers in this case to just simply walk away and say: "Oh, we had a good try. We will pay," and that is the end of it. We would expect it to go on.

When people use a complicated tax device, the business of sorting out whether it is avoidance or evasion is a complex matter. What you might take the normal standards of speed in clearance I do not think prevail. So do not expect these to go through with anything like the same sort of speed as an appeal coming through from a small businessman or a manufacturer arguing the application of a retail sales tax rule or whatever. On those things we have standards and requirements of performance and passthrough for those things which involve much higher expectation of speed than here. When you start to use complicated tax devices, transactions, everyone expects them to take time. In fact I would say it is just as likely that whatever delays are involved here were caused by the customers. It is not unusual for people, for customers, once they have put stuff into the appeals process to delay purposely.

Mr. Charlton: There are two questions that flow out of what you have just said and I would like the auditor to comment. The first is that you started out by saying that this process, this tax technique, whatever you want to call it, is a very complicated one and you have to use it precisely. Are you telling me that if someone uses it precisely they are still going to beat you?

Mr. Russell: No. I think the most interesting thing about this is that this is an example of what goes on. It is the vestige of the use of a tax loophole which does not now exist. We closed this loophole two years ago.

Mr. Charlton: Okay, so the loophole is closed and there is no new stuff going into the appeal system?

Mr. Russell: We pumped in a piece of legislation two years or so ago, which I guess in the editing of the report was not mentioned.

Mr. Charlton: So that brings the question back to the auditor. You are familiar with the loophole being closed; are you satisfied that in the long run will remedy the problem?

Mr. Peall: In this particular type of case it is our understanding that that loophole has been closed. I am not sure it is the only loophole that exists.

Mr. Russell: Of course there will be another loophole; that is what we said before with the matter of tobacco and gasoline and fuel. The incentive to avoid is big; it is 20 per cent. If you are interested in investing and getting agricultural land in this province, that type of saving on top of the sorts of prices you are paying is a very worthwhile thing to go for. Of course there will be another loophole. Something will be tried again and we will require another legislative amendment to close that.

Mr. Charlton: I think we all understand there will always be tax loopholes as long as there are taxes, and people are going to find them. The specific question we as a committee have to get an answer to in this case is whether or not you have satisfactorily solved the delays question, if the problem no longer exists and there are going to be no more delays in the future. It is the delays question we have been confronted with here so that is why I am asking the question. Has that particular loophole that relates to this question of your audit delays to get the problem resolved been effectively closed?

Mr. Russell: The loophole is closed. The question of delay we do not think is a serious matter. Actually, the customers in this case are not complaining about the delays and we are not overly embarrassed about them. If they are settled we expect to go to court. Third, during the course of these delays the provincial interest is secured.

Mr. Archer: With interest?

Mr. Callahan: I would like to pursue that. In these cases you are talking about with the share loophole, the first level they came to was tribunal under the act, was it—that rule that they were out of luck?

Mr. Russell: The first stage was within the branch; something occurred, some intelligence was at play which caused that branch to identify these transactions as being worthy of attention.

Mr. Callahan: Okay, something obviously—

Mr. Russell: They were then put to a form of examination, audit and such within that branch. They would have taken it through to the point that they were convinced that the exemption claim was not valid, that the loophole had not been sufficiently well engineered to allow them to pass through it, and an assessment was issued.

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In other words: "Notwithstanding what you claimed, here is your assessment, here is what you owe, pay."

Mr. Callahan: So that is what the appeal is.

Mr. Russell: That is the first thing.

Mr. Callahan: That is the appeal to the Supreme Court of Ontario.

Mr. Russell: Then the taxpayer has the right to say, "I object." In how many days they just pass in a notice saying, "I want this done all over again, this is wrong."

This does not cost him anything. It is a reasonable safeguard that exists in this system in our jurisdiction, as in most. There is a quick method to try to check to see whether a mistake is being made. That is what this means: appeals and backlogs in the hands of our tax appeals branch.

The tax appeals branch will go through the whole thing again and make a resolution. In these particular cases, we are not surprised to find that the tax appeals branch is upholding the decisions and the assessments originally issued. The taxpayer now has a choice of whether to move through the courts.

Mr. Callahan: I know where you are at now. Having had two opinions, has the tax that has been assessed been paid? If not why not, because under Revenue Canada's rules, the procedure is identical, except they give 90 days to file a notice of objection while you give 180? They have to pay the tax that is claimed, and if they win they get the tax back, I think with no interest on it. If they lose, they pay the interest, which I always found a little inequitable.

Mr. Russell: We would pay interest when we make a refund. Do we demand payment at assessment time, or do we just simply take loans and—

Mr. Moxley: We request payment at collection time. We will make other arrangements for security; we will put loans on in particular instances. Ordinarily, we want the money and the first thing we do is request the money.

Mr. Callahan: Does the act provide for the money being paid or security being made?

Mr. Moxley: Yes.

Mr. Callahan: Okay, because I would think that would speed up the process. I agree with you that the interest of the party having to pay is going to be to delay the matter if there is no payment or interest on it.

Mr. Moxley: That can be true even if we accept security for the tax, of course; they will still be interested in delaying.

Mr. Russell: They might very well be interested in delay, which would offset what one would expect to be the incentive to settle because of the accumulated interest. That is not unusual here where these devices are used or concocted or managed by a particular lawyer or a particular group of lawyers. If they begin to get the suggestion that they are not doing it quite well enough, they will then call in turn on another series of lawyers to see if something better can be made of it, if something else is missing.

So the case is not static; the game is going on all the time.

Mr. Callahan: Okay. The other thing is, in these instances where you identified through the affidavit that they were nonCanadian residents, how would you determine that?

Mr. Russell: There are all sorts of ways one can trigger this. As I have said, a good number of them come from one lawyer. I do not know how it is done, but I would presume it would not be unreasonable to suspect that the business conducted by that lawyer is under a particular form of close examination. There is a higher presumption that maybe other cases that he is pumping through in the same sort of area are being treated in the same way or being developed in the same way and are worth attention.

Mr. Callahan: I can see where you might grab those. I am concerned that you may be missing some. The affidavit for land transfer tax does not provide for the affiant saying: "I am a president of a company wherein the shareholders are 51 per cent Canadian," so it would make it a resident within the act?

Mr. Russell: That was the beauty of the act.

Mr. Callahan: Normally what you have is an offshore company that would set up a numbered company, or even a named company with Canadian content in the shareholders and they would in fact control the shares offshore of this company through whatever method, and they would buy the land. The land would be bought by a bare trustee or a man of straw or a company of straw. Are those the instances, is that the type of situation?

Mr. Russell: That is it. In the case of a genuine nonresident coming over and saying: "I want to set up residence and become a farmer in—"

Mr. Callahan: Such cases are few and far between, I would think.

Mr. Russell: There are numbers.

Mr. Callahan: Are there?

Mr. Russell: There is always quite a movement of immigrant farmers into Ontario and there are pretty straightforward ways of checking the veracity of their declarations. For the most part you can see that their business is being conducted in a very simple way. There are correspondingly simple tests, or at least you can allow a higher presumption that they are likely to be right.

In other words these people are guileless, they appear to be guileless; therefore you tend to take their word for it. In this tax as in others, a simple device like an affidavit tends to nail down the great majority of situations.

The whole business of the use of the sale of corporate shares, of specially constructed corporations, is of course a device which is exactly meant to obscure all that. It is meant to make it that ownership cannot be easily associated with residents, and so on and so on. So you remove what can be otherwise taken as the observed nationality of the applicant, a simple test of days of residence and all that stuff, spreading it further and further apart from the question of actually taking possession of land, and in effect beneficial control of land. This whole thing is a dissembling device that many—

Mr. Callahan: Maybe you should have the lawyers swear the affidavit—swear it not for the affiant but swear it themselves. If they know what is going on there they should be required to do that.

In any event, how do you get around it? I do not know how you get around it. You cannot find out anything. You search a corporation and find very little information and to track it down is almost impossible.

Mr. Russell: Suffice to say this is a very skilled business and it is very time consuming. Bob, I do not know if you would want to take time to explain how these things are disassembled and examined for their individual parts.

Mr. Callahan: He may not want to tell it, because Hansard is available to the public and you may find that they will---

Mr. Russell: Let's put it this way. There was a movie called The French Connection. Have you ever seen the scene where a fabulous car came in and they took every bit apart, very painstakingly? Every part of that thing called a car was taken apart, they examined every bit, every bit was weighed, and so on, and then they carefully put the whole thing back together.

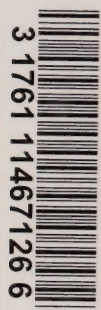
The examination of the use of one of these corporate systems is essentially like that. You take the whole thing and start to break it up and lay every part of it on the floor and see whether the bits fit, whether there is a consistency in the whole assembly, and then it is put back together. It is a very time-consuming business.

Mr. Chairman: It is an awful lot like our public accounts meeting, which is also a very time-consuming business. I greatly appreciate the appearance of Mr. Russell, Mr. Rowsell and Mr. Moxley. We know that you will anxiously be awaiting our report and our recommendations. We will be preparing them very soon and will be sending them to you.

Thank you for your co-operation.

The committee adjourned at 12:12.

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